

NHRS Board of Trustees Meeting
March 8, 2011

Note: These minutes from the March 08, 2011, regular meeting were approved and executed, *as amended*, at April 12, 2011, regular meeting of the Board of Trustees.

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

Public Minutes

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

Present: Lisa Shapiro, *Chair*; Danny O'Brien, *Vice Chair, via telephone*; Sen. Jeb Bradley; Dean Crombie; Justin Cutting; Sam Giarrusso; Rep. Ken Hawkins; Kate McGovern; Mike Macri; Germano Martins; Brian Morrissey; Cathy Provencher, *State Treasurer, ex officio*; Jill Rockey.

Absent: Keith Hickey.

Staff: Kim France, *Interim Executive Director*; Larry Johansen, *Director of Investments*; Nancy Miller, *Director of Member Benefits*; Jack Dianis, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Denise Call, *Director of Employer Services*; 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 Karlton, *Public Information Officer*; 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 February 8, 2011, public and non-public Board minutes. On a motion by Ms. Provencher, seconded by Mr. Morrissey, the February minutes were approved. Trustee O'Brien abstained because he had not been present at the February meeting.

The Chair stated she would entertain a motion to approve the Consent Agenda. Following a motion by Mr. Giarrusso, seconded by Mr. Morrissey, Rep. Hawkins stated he had a question regarding one of the Disability Applications. Accepting a friendly amendment from Mr.

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Giarrusso to remove Disability Application T.M., the Consent Agenda passed unanimously.

Dr. Shapiro then stated she would entertain a motion to enter into non-public session under RSA 91-A:3, II(c) to discuss the disability application of T.M. Moved by Mr. Giarrusso, seconded by Mr. Morrissey, a roll call vote was taken, as follows:

Ayes:

Lisa Shapiro; Danny O'Brien; Sen. Jeb Bradley; Dean Crombie; Justin Cutting; Sam Giarrusso; Rep. Ken Hawkins; Kate McGovern; Mike Macri; Germano Martins; Brian Morrissey; Cathy Provencher; Jill Rockey.

Nays.

None.

On a motion by Mr. Giarrusso, seconded by Rep. Hawkins, the Board of Trustees concluded the non-public session.

Having re-entered the public session, Mr. Giarrusso moved, with a second by Mr. Morrissey, to table Disability Application T.M. The vote was unanimous.

The Chair asked Kim France, Interim Executive Director, for her report. Ms. France focused her opening remarks on the NHRS process for fiscal analysis of legislative proposals. She detailed the steps that begin when the System receives a Legislative Services Request (LSR) from the Legislative Budget Assistant Office (LBAO), emphasizing that the text of an LSR is not public. Staff reaches out to our Consulting Actuary for fiscal analysis. When the fiscal analysis is returned, staff prepares a Fiscal Note Worksheet (FNW), and forwards the FNW and GRS analysis to the LBAO. Once the LSR becomes a Bill, the Bill, the FNW, and the GRS analysis are shared with the Board. Ms. France then specifically addressed the request she had received for fiscal analysis from Governor Lynch's staff, acknowledging the criticism she had received from some Board members. She stated that the Governor's proposal, which was a serious proposal to be part of the state budget, was treated like an LSR, and although such a request did not follow the LSR process, it was treated in the same confidential manner. The proposal was sent to GRS for fiscal analysis. When she learned that Governor Lynch was going to include the information in his Public Budget Address on February 15, 2011, she called his office for both confirmation and to inform him and his staff that she had an obligation to inform her Board of Trustees. She

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sent the full Board of Trustees an email notifying them of the Governor's plan, including the GRS analysis. Ms. France revealed that she had received communications from Board members and other parties regarding the process she had used, with one Trustee stating she had given the Governor preferential treatment and acted as though he was "someone off the street asking for fiscal analysis." She stated it was her intention to treat a request from the Governor with the respect and confidentiality afforded an LSR triggered by a Legislator's request. Noting that the Governor's proposal was now part of HB 2, she stated that she believed in the process she had followed, and asked the Board for commentary and direction regarding her actions.

In response, Ms. Provencher went on record with her approval of Ms. France's process and timing, endorsing the confidential treatment of the Governor's request and his timeframe. Sen. Bradley agreed with the State Treasurer's comments, confirming that Governor's proposal in a budget address had to be kept confidential. Recognizing that the partisan nature of the Board, with Rep. Hawkins and himself as members, precluded their advance notice of the Governor's address, he stated that the confidentiality applied to the entire Board.

Trustee Cutting inquired whether the discussion at the Legislative Committee meeting had resulted in any change to the process. Ms. France asked the Chair of the Committee to answer. Mr. Giarrusso answered that there were no recommendations to change the process. He expressed his concern that the public's perception that the Trustees did not "know what was going on" at the Retirement System had led to legislation to change the Board's configuration. He stated that when Board members are "the last to know what takes place fuels that fire", and he believed that lead time as a professional courtesy to trustees was appropriate and should be reviewed, noting that the Board is bound by confidentiality and ethical processes.

Trustee Rockey acknowledged Trustee Giarrusso's concerns but did not know if getting confidential information sooner was the way to address those concerns. She noted that the Board has received more information in the last month than had previously occurred.

Trustee McGovern spoke to staff's responsiveness to the Chief Executive of the State, noting that one of the Retirement Commission's recommendations was for NHRS administrative staff to be more engaged in constructive collaboration with public policy makers.

Ms. France continued her report with comments regarding the IT upgrades, noting that it was important for the organization to begin to

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collect data about its options for its enterprise application, currently PensionGold, before moving forward with significant IT infrastructure changes, since the enterprise application and infrastructure are so intertwined. She discussed the work that NHRS was doing with Systems Engineering, noting that the evaluation of the relationship was an ongoing process as each party considered tasks to be performed.

Ms. France discussed the Hay Group progress in tracking meaningful job performance within the organization, creating accurate job descriptions, and developing an accurate performance metrics tool for staff evaluation. She stated that a part of Hay's charge to capture unit performance in a meaningful way was to reveal employee development training needs. In response to Dr. Shapiro's question regarding the conclusion of the project, she stated that all contract work would be completed by June 30, 2011, and would include a written report and presentation to the Board by the Hay Group. The total cost for the four phases of the organizational development evaluation was \$225,000. Trustee O'Brien asked if a review of the current organizational structure was included with Phase IV of the project, which Ms. France confirmed by stating that she wished to present an updated organizational chart to the PPCC prior to the April Board meeting. In response to a question from Mr. O'Brien, Ms. France confirmed that the identified, high priority IT items would be completed within the next six months.

In addressing the Education and Outreach portion of her agenda items, Ms. France stated that the System had reached over 300 legislators, other public officials, System members and retirees with NHRS 101 sessions, with a new request for a presentation in the Rochester area that was being scheduled. New pages on the website had been added to satisfy communication initiatives, and she noted that almost 10,000 members had created My Account personal accounts to date. Additionally, Ms. France referenced the editorial calendar created by the Public Information Office, noting that separate newsletters for Members, Employers, and Retirees had been sent on schedule, with good response. She confirmed that although the majority of newsletters were sent electronically, printed copies were always available.

Ms. France discussed the number of recent right-to-know requests received by the System, which included a request for individual retiree names, a request for the number of retirees by zip codes, as well as a request for both active members and retirees by zip code. She confirmed that the request for names with zip codes had not been provided, citing the pending NHRS lawsuit to that issue.

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Dr. Shapiro then requested the report from the Director of Finance. Mr. Dianis directed the Board to Tab 4 of their materials, page three, and he walked the Board through Schedule A. He stated that on page four, Board members would find supporting detail for Management and Administrative Expenses represented as a 'run rate', a straight line accounting of System expenses, both investment and non-investment. He highlighted the lines representing funds that were moved through the State, as well as those funds that did not. In Line 27, he pointed out the 'reasonableness check' figure, requesting the Board's input on what should and should not be in that number. He reminded the Board that Line 26 continued to include Investment salaries, but that in the next biennium those expenses would be excluded.

In preparing for future reports, Mr. Dianis stated he wished to provide a history of the financial report, explain what was currently captured in the report, and offer a proposal for what Staff believed should be included for the Board's consideration. His goal was to create a policy and establish solid guidance for financial reporting to the Board. In closing, he reminded them that the administrative expense had been set for the next biennium, and that any preparation for June 30, 2011, was for the '14-15 biennium. Trustee O'Brien thanked Mr. Dianis for his report and asked that going forward he provide the Board with a list of items he believed were significant and influential in the financial report.

Trustee Cutting inquired about the status of the Dashboard and whether it would be included in future material. Ms. France addressed the dashboard document handed to the Board, noting that it contained static data. In responding to a bill sponsor's question that focused on the firefighter retiree detail, she revealed that of the 27 firefighters who retired in 2010, Staff research had determined that the majority were high-ranking officials with an average service of thirty-plus years, many of whom had contributed over \$500K to the Retirement System. Their average retirement income, based on their specific circumstances, was not a balanced representation of retirement income, but skewed because of the unique nature of that class of 2010 retirees. The Executive Team's concern that public policy was being driven by the anomalous class, frozen in a static report, had spurred the decision to remove the dashboard from the Board materials. She noted that Staff were actively working on an appropriate substitute to the dashboard that would include data over a few years, with detail that accurately revealed NHRS data.

Mr. Dianis next discussed the Budget, referencing the Governor's proposals that became HB 1 and HB 2. He stated that two changes had been made to the System's budget. Firstly, the retiree health insurance

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budget line was adjusted by \$29,003 in 2012 and \$13,601 in 2013, representing revised rates. Secondly, the State's contributions to the political subdivisions were eliminated. He noted that the System's hearing had not yet been scheduled.

Dr. Shapiro asked that adjustments to the System's budget be tracked carefully, and if necessary, a report to the Board regarding its role in appropriations be prepared for both Staff and Board member education.

The Chair welcomed Ken Alberts and David Kausch from GRS to discuss the revised Five-Year Experience Study. Mr. Alberts referred the Board to the synopsis of the full report in his presentation, stating that he would speak to the Study results and answer any questions. He reminded the Board that the June 30, 2010 valuation was not a rate-setting valuation, but rather a comparison of actual experience versus assumed experience.

Following the presentation, the Chair stated she would entertain a motion to accept the experience study report as presented by GRS. Moved by Mr. Morrissey, seconded by Ms. Rockey, the Board voted unanimously to accept the experience study report presented today. Trustee O'Brien left the meeting telephonically.

Following a brief break for lunch, Dr. Shapiro asked Larry Johansen, Director of Investments to introduce Archan Basu and Liz Smith of AllianceBernstein for their presentation on Capital Market Assumptions. Following their presentation, Dr. Shapiro commented on the 8% rate at which they had arrived, exactly that of GRS and NEPC. Mr. Basu stated that he was surprised by the result, given the vastly different routes they had traveled in their calculations. Ms. Smith stated she would provide the Board with additional material to support their conclusions.

The Chair stated she would entertain a motion to enter into non-public session under RSA 91-A:3, II(c) to discuss the disability application of T.M. Moved by Mr. Martins, seconded by Mr. Morrissey, a roll call vote was taken, as follows:

Ayes:

Lisa Shapiro; Dean Crombie; Justin Cutting; Sam Giarrusso; Rep. Ken Hawkins; Kate McGovern; Mike Macri; Germano Martins; Brian Morrissey; Cathy Provencher.

Nays.

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None.

On a motion by Mr. Giarrusso, seconded by Rep. Hawkins, the Board of Trustees concluded the non-public session.

Having re-entered the public session, Mr. Giarrusso moved, with a second by Mr. Crombie, to remove from the table and approve the Disability Application of T.M. The vote was unanimous.

Dr. Shapiro requested the Governance Committee report. Mr. Cutting moved that the Board accept the proposed amendments to RSA 100-A:15 as recommended by the Governance Committee and seek legislative sponsorship. Seconded by Mr. Morrissey, the motion passed unanimously. Rep. Hawkins stated he would see that the language was attached to legislation in 2011.

Mr. Cutting reminded the Board that the Governance Committee would be meeting following the adjournment of the full Board Meeting.

Mr. Martins reported that the Benefits Committee had not yet been able to set a meeting time to address the recoupment policy. Dr. Shapiro asked for a potential number of recoupment issues that needed to be addressed. Nancy Miller, Director of Member Services, stated that the issues crossed a number of areas in the agency and she was working with the affected functional teams to identify and move forward recoupment issues.

In a discussion regarding Committee membership and participation, the Chair asked Mr. Cutting to investigate the potential of assigning alternate members to committees so that important work could continue with the additional of alternate members to step in for an absent member.

Ms. Provencher spoke to the Audit Committee, stating that the Committee was heading to policy changes to address VCP compliance issues and not Legislation. In addressing the Audit Tracker, she asked Ms. France to speak to the tracker's composition. Ms. Provencher noted that a work session with the Executive Team was scheduled following the IIC meeting on March 18, 2011.

Mr. Giarrusso gave a summary of the Legislative Committee meeting from that morning, first presenting revised language for HB 491 (the Sudan divestment bill) in the unlikely event the act was not repealed. Following discussion, Dr. Shapiro asked that all those members of the NHRS Board of Trustees who supported the revised language as an

alternative to repeal to say “Aye”. The motion carried, with Trustee Cutting abstaining.

Continuing his report, Mr. Giarrusso referenced SB 75 and an amendment to add notification of the Commissioner of Administrative Services to the bill language. He asked Ms. France to speak to the bill’s details. She detailed the bill’s onerous notification requirement on the NHRS. Regarding the classification of part-time employees, Ms. France believed the bill’s language involved a policy issue and was thus outside the purview of the NHRS.

Mr. Giarrusso moved that SB 75 include notification to the Commissioner of Administrative Services of pending legislation with a retirement system cost to employers, and remove notification of federal legislation. His motion was seconded by Rep. Hawkins. Ms. Provencher offered a friendly amendment, suggesting that Section 1 of the pending bill be completely removed and replaced with RSA 100-A:14, XII to include the Commissioner of Administrative Services. Ms. France confirmed that she and Atty. Crutchfield were working with the Department of Administrative Services on an appropriately-worded amendment, and Dr. Shapiro asked for a more loosely directed motion. Rep. Hawkins offered a friendly amendment, stating that the NHRS would notify the Commissioner of Administrative Services and the language would be satisfactorily drafted. Ms. Miller addressed the part-time employee information by stating that reporting the information was the responsibility of the employer. Denise Call, Director of Employer Services, addressed the potential system changes necessary to recognize anomalies in hours, eligibility and contribution rates. Rep. Hawkins stated that a requirement was being considered in the Legislature that employers report all employees by social security number. Ms. France expressed her concerns with the NHRS being tasked with monitoring 479 employers reporting every employee in addition to the NHRS members.

Mr. Giarrusso withdrew his motion. Dr. Shapiro asked that the Legislative Committee work on the broader issue of part time employment before the next Board meeting.

Regarding SB 75, she stated she would entertain a motion to give staff the authority to negotiate an outcome that is appropriate on administrative matters. Moved by Ms. Provencher, seconded by Rep. Hawkins, the motion carried unanimously.

Mr. Giarrusso next addressed the Legislative Cost Summary that Staff prepared for the Board’s information. Ms. France addressed the mechanical difficulties at issue with the passage of much of the pending

legislation, as well as the cost of new legislation. Rep. Hawkins stated he would bring the Legislative Cost Summary to his committee. The Board discussed, in general, potential consequences of pending legislation before the Legislature, acknowledging that no firm bill implementation plans could be made by Staff until the session concluded.

For his investment report, Mr. Johansen opened his remarks by stating that the NHRS had completely exited the securities lending program in late January. He referred the Board to the last page behind Tab 11 that revealed over 20 years, the securities lending program had earned for the NHRS net \$18.25 million. He continued by stating that the equity markets had started calendar year 2011 positively, and that the S&P 500 had closed March 7, 2011, at 1310.13, up approximately 4.2% for the calendar year. Mr. Johansen said that the federal employment figures released March 4, 2011, were encouraging, revealing that employers had increased payrolls by 192,000 in February, and noting that the unemployment rate had declined further in February to 8.9% from 9.0% in January, which was the lowest unemployment rate since April 2009. The increase in new jobs and the decrease in the unemployment rate suggested underlying strength in the job market. As of February, the number of workers on the payroll was 7.5 million lower than level in December 2007, when the recession began. Another important metric of the health of the labor market, the labor force participation rate, is at its lowest point of 64.2% since the mid-1980s. The labor force participation rate measures the percentage of adults who have jobs or are seeking jobs. Generally, all this information reinforced other indicators of an economy that was slowly gaining momentum. He cautioned that the unrest in the Middle East and North Africa had created a significant increase in the price of oil, which had closed March 7, 2011, at \$105 a barrel, the highest price since September 2008. This only exacerbated continued concerns regarding the fragile economic recovery.

Mr. Johansen referred to the highlights of the February Investment Committee meeting and an overview of the March Investment Committee meeting behind Tab 11, noting that progress on the Work Plan, updated to include the fourth quarter of this fiscal year, and recent developments of interest were also included behind Tab 11. In closing, he offered a brief overview of the portfolio performance for the periods ending January 31, 2011: for the three months ending January 31st, total marketable investments, which were more than 93% of investments, returned 5.5%, out performed the blended benchmark by 30 basis points; fiscal year to date, total marketable investments returned 19.0%, out performing the blended benchmark by 40 basis points; for the one year ending January 31st, total marketable investments returned 17.4% out performing the blended benchmark by 20 basis points; for the 3 years ending January

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31st, total marketable investments out performed the blended benchmark by 60 basis points. In answer to a question from Mr. Crombie regarding bonds, Mr. Johansen confirmed that a bond portfolio was being carefully constructed in anticipation of a shift in interest rates.

Following general conversation regarding investments, Dr. Shapiro asked Attorney Crutchfield to address Legal and Compliance matters. He referenced the Supreme Court decision in the Department of Corrections lawsuit that upheld the NHRS position that the reclassification of existing Group I to Group II positions was only within the legislative purview. He offered a summary of federal legislation from summer 2010, called the Dodd-Frank Act, related to the possible registration of Trustees as municipal advisors with the SEC. Based upon guidance from Groom Law Group and the SEC, he stated that NHRS would await expected clarification from the SEC before any registration occurred. There was continued work on the VCP compliance policy document that he hoped to present to the Board in April.

Dr. Shapiro acknowledged that Rep. Hawkins would serve on the Governance Committee, and that with her resignation from the Legislative Committee, she was appointing Kate McGovern to that Committee. She requested Board members review their committee commitments and interests and contact her for thoughts and changes.

Ms. Provencher wished to commend the Staff for its commitment and work for the System, to which Dr. McGovern concurred. Dr. Shapiro closed by expressing her satisfaction with working with the Board and Staff.

On a motion by Mr. Crombie, seconded by Ms. Provencher, the Board adjourned at 2:42 p.m.

Respectfully submitted,
Shannan Hudgins