

Note: These minutes from the March 12, 2013, regular meeting were approved and executed at the April 9, 2013, regular Meeting of the Board of Trustees.

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

The Public Minutes

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

Trustees: Lisa Shapiro, Ph.D., Chair; John Beardmore; Dean Crombie; David McCrillis; Kate McGovern, Ph.D.; Dick Gustafson, Ph.D.; Hershel Sosnoff; Karen McDonough; Don Roy; Guy Scaife; George Walker. Jack Wozmak, and Cathy Provencher, *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*; Marty Karlon, *Public Information Officer*; and Shannan Hudgins, *Administrative Coordinator*.

Chair Shapiro called the regular meeting of the NHRS Board of Trustees to order at 9:01 a.m. and requested a motion to approve the public and non-public minutes from the February 12, 2103, regular meeting. On a motion by Trustee Gustafson, seconded by Trustee Roy, the minutes were approved unanimously.

In the absence of Trustee Provencher, Jack Dianis, *Director of Finance*, provided an Audit Committee report. He referenced the updated Tracker and recent formatting changes that clarified the report. Mr. Dianis noted that of the eleven open issues in February, three had been closed and no new findings had been added, leaving eight issues outstanding.

Trustee McGovern offered a Benefits Committee report, beginning with the Committee's finding on a disability appeal. Stating that the Committee unanimously recommended Board approval, on a motion by Trustee Scaife, seconded by Trustee Gustafson, the Board unanimously voted to approve the Hearings Examiner's recommendation in the matter of R.G.

A brief discussion ensued on an administrative decision recently rendered by the NH Retirement System. Atty. Crutchfield explained the pertinent parts of RSA 100-A and RSA 41:45 governing NHRS membership for tax collectors and town clerks. The discussion included the equitable elements at issue, possible remedial legislative provisions for retroactive enactment, and a careful expression of Board intent. On a motion by Trustee McGovern, seconded by Trustee Walker, the Board unanimously voted to provide language to the legislature permitting NHRS membership under RSA 100-A:3 based on combining the Town Clerk and Tax Collector positions for the same employer.

Trustee McGovern continued her Benefits Committee report with a brief discussion of a potential Independent Medical Examiner (IME) rule revision, stating that the Committee continued to review and research the complex circumstances surrounding disability retirement review. She also reported that the Committee had reviewed Atty. Crutchfield's memorandum on the interest rate used for the calculation of additional contributions. Larry Johansen, *Director of Investments*, explained that the actuarial calculation was based on the assumed rate of return (ARR) as set by the Board of Trustees, currently 7.75%, less 2% as required by the 2011 HB2 statute. Therefore, the annual interest rate on additional contribution calculations would be 5.75% for all following years until and unless the Board changed the ARR.

Trustee McGovern discussed the staff recoupment committee, noting that it was functioning very well. Matters involving funds greater than \$5K were being brought to the Benefits Committee with supporting research and recommendations, and recoverable funds were being identified for recoupment as appropriate. She next discussed the statutory call firefighter benefit, stating that the Committee was considering a possible legislative action. Trustee McGovern explained that there was a potential for the trust fund to subsidize the benefit if there should be additional benefits awarded. Mr. Lagos stated that there was a low dollar impact, but it was a matter of principle which required a review and further analysis.

Trustee McGovern asked Mr. Johansen to address the actuarial factors item on the Agenda. He explained that the five-year experience study by NHRS consulting actuaries Gabriel Roeder Smith & Company based on the June 30, 2010 period had resulted in the Board of Trustees adopting new actuarial assumptions in May 2011. The new actuarial assumptions required calculation of actuarial factors for the optional forms of benefits selected by members at retirement. The Benefits Committee would review a full staff report at its next meeting and prepare a recommendation for Board consideration at its April 9, 2013 meeting.

On a motion by Trustee McGovern, seconded by Trustee McCrillis, the Board entered into non-public session under RSA 91-A:3, II(e) to discuss a current legal action with Belknap County, by a roll call vote, as follows:

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

Nays: None.

On a motion by Trustee Sosnoff, 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 McGovern, 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.

Trustee Roy presented the Governance Committee update, reporting that eleven firms had responded to the legal Request-for-Proposals and of those, six had replied for both fiduciary counsel and tax, benefits and legislative counsel. The staff committee review and scoring matrix had identified two finalists, including the current firm Groom Law Group. Face to face formal interviews will be scheduled with the Governance Committee at its next meeting. Following those interviews, Trustee Roy anticipated the Committee would prepare a recommendation for the Board's consideration. He briefly discussed the pending Governance Manual review by Hewitt EnnisKnupp (HEK) and stated that HEK governance consultant Nancy Williams would attend the April Board meeting.

Trustee Sosnoff opened his remarks on behalf of the Independent Investment Committee (IIC) by stating that funds held in trust as of January 31, 2013 were \$6.259 billion, up \$174 million from the previous month. Included in the investment materials was the NEPC quarterly investment summary for the period ending December 31, 2012. A broad discussion of investments followed that included emerging market debt and the Chinese market. The Able/Noser annual review of trading costs reflected very favorable performance. The quarterly peer performance analysis by NEPC indicated that NHRS investment performance and its investment and administrative expenses continue to compare favorably to peer public pension funds.

As Chair of the Legislative Committee, Trustee Sosnoff opened his update by remarking that there is significant public and legislative interest in retirees working part-time for NHRS participating employers, typically referred to as "double-dipping." He stated that HB 342 and HB 364 each addressed the issue and would likely proceed in some form. Two bills with potential to impact

NHRS were voted inexpedient-to-legislate: HB 455 and HB 620. Trustee Sosnoff asked Marty Karlon, *Public Information Officer*, to discuss further legislative action. Mr. Karlon provided highlights on the hearings he attended, noting that the NH House appeared to have less focus on retirement issues than was experienced during last year's session. He referenced the calendar documents behind Tab 6 for Trustee reference.

Trustee Gustafson discussed the meeting of the Personnel, Performance, and Compensation Committee (PPCC) held on March 7, 2013, with a broad overview of CBA bargaining issues and stating that the fourth bargaining meeting would be held on Wednesday, March 13, and was the last meeting either side could offer new proposals. In reference to the Executive Director review, he stated that he and Chair Shapiro would be scheduling a meeting with Mr. Lagos. Trustee Gustafson reported that the Process Improvement Plan (PIP) would be a long-term project which requires at least a year to complete, and that the Board could expect to see a more efficient NHRS at the conclusion of the process. In discussing the NHRS performance review plans, he stated that the reviews were not tied to compensation. He closed his update with notice that the PPCC would meet before the April 9, 2013 Board meeting.

Chair Shapiro called a ten-minute break before the 2014 Business Plan Work Session by Mr. Lagos.

Executive Director Lagos facilitated a work session that identified key elements Trustees were interested in seeing developed through FY 2014. Capitalizing on the 2012 Preserve, Achieve, Avoid list that he and the Trustees had developed in February 2012, Mr. Lagos structured his questions so that the Trustees offered suggestions for continued success, potential development, and deterrence. At the conclusion of the session, Mr. Lagos stated that he would overlay the items on the 2014 Action Plans. He would present them, along with one and three-year plans, at the April Board meeting.

Chair Shapiro requested the Legal update, and Tim Crutchfield, *Chief Legal Counsel*, began with a review of the March 8, 2013, hearing on the HB 1645 lawsuit, which has been pending since 2009. A brief discussion of the enactments impacting earnable compensation, cost-of-living adjustments, and the value of medical premiums followed.

Mr. Lagos reported that staff were working on potential implications of Court rulings regarding HB 2. He wished to have a plan in place that addressed not only the financial costs, but also the work processes which might be necessary to unwind the system modifications which had been required to implement the statutory changes, depending on the Court's ruling.

Mr. Dianis presented the Finance update, stating that budget issues were proceeding well within plan. He noted a GASB outreach survey had been placed on the NHRS website to gather data for employer education and training. Mr. Dianis announced that an RFP for actuarial services would be issued in April, noting that the contract with GRS expires on December 31, 2013. The standard actuarial services contract was five years. Mr. Lagos suggested an *ad hoc* Board committee of three members would be beneficial to the process. Chair Shapiro asked that interested Trustees contact her before the April Board meeting. In concluding his report, Mr. Dianis stated he would add FYTD data for the prior year in the cash flow section of his Finance Key Performance Indicators' exhibit.

Paul Zahensky, *Director of IT*, presented his update and stated that the bulk of his report focused on compliance matters that included installation of hardware, LRS upgrading the PensionGold application to SQL 2008R2 compliance, continuing helpdesk software migration, and a search for new software to replace the non-compliant imaging software currently in place. He stated that the last part of HB2 implementation was in testing and that development of the Business Continuity Plan was in process.

Nancy Miller, *Director of Member Services*, reported that the numbers of both appointments and retirements had increased, noting the trend was an annual one that culminated in a large July 1 teacher retirement population. Her teams were actively involved in the actuarial factor testing discussed earlier in the meeting.

In Denise Call's absence, Mr. Lagos offered a brief update on Employer Services and Retiree Services. He stated that Tamre McCrea had developed a PowerPoint education session for employers that would also be added to the NHRS website. He further commented that work continued on the employer reporting process under the management of Kathy DeNutte. Chair Shapiro asked if there were any discussion items regarding the Consent Agenda, and on a motion by Trustee Scaife, seconded by Trustee McGovern, the Board unanimously voted to approve the Consent Agenda.

During the Check Point portion of the Agenda, Chair Shapiro requested Mr. Lagos discuss the letter each Board member had received from Dave Lang, President of the Professional Fire Fighters of NH. An extended conversation regarding the issue of post retirement employment ensued, as well as related fiduciary duty considerations. On a motion by Trustee Beardmore, seconded by Trustee Sosnoff, the Board unanimously voted to empower Mr. Lagos to prepare a response to Mr. Lang on behalf of the NHRS Board of Trustees.

Mr. Lagos asked the Board to consider the HEK agenda that he had included in their materials, stating that the conference would be held in Chicago. He also

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stated that governance consultant Nancy Williams would be at the April Board meeting.

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

*Respectfully submitted,
Shannan Hudgins*