

**Note:** These minutes from the May 10, 2011, regular meeting were approved and executed at the June 14, 2011, regular Meeting of the Board of Trustees.

**Regular Meeting  
Board of Trustees  
May 10, 2011**

**Public Minutes**

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

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

*Staff:* Kim France, *Interim Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Nancy Miller, *Director of Member Services*; Denise Call, *Director of Employer Services*; 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*; Cecile Merrill, *Project Manager*; John Browne, *Internal Auditor*; Lyn England, *Business & Finance Accountant*; Christine Basha, *Public Information Specialist*; Camille MacKnight, *Contact Center Specialist*; and Shannan Hudgins, *Administrative Coordinator*.

*Guests:* Harold Janeway, *Independent Investment Committee Chair*; David Kausch, *GRS*; Kevin Leonard and Erik Knutzen, *NEPC*.

Chair Shapiro called the meeting to order at 10:04 a.m., stating she would entertain a motion to accept the April 12, 2011, public Board minutes. Moved by Rep. Hawkins, seconded by Trustee Giarrusso, the minutes were unanimously approved. Although Dr. Shapiro requested the April minutes reflect a *nay* vote by her on the motion to engage NHRS consulting actuaries to perform a calculation on HB 2 §203, i.e., a review of the actuarial impact of a defined contribution plan on the System, the vote tally as reported was verified by meeting notes of both Atty. Crutchfield and Ms. Hudgins.

The Chair stated she would entertain a motion to approve the Consent Agenda. Dr. McGovern moved to accept the Consent Agenda, with the exception of the Rita Blanchette Administrative Recommendation. Dr. Shapiro asked for other exceptions to the Consent Agenda, and Trustee O'Brien requested the Administrative Recommendations of Bonnie Rozzo and Richard Brewer be removed. Accepting a second to the motion on the floor from Trustee O'Brien, the Chair called the question. The adjusted Consent Agenda passed unanimously.

Dr. McGovern moved to refer the Administrative Recommendation for Rita Blanchette to the Benefits Committee for review. Seconded by Trustee Hickey, the motion passed unanimously. Dr. Shapiro asked that Dr. McGovern attend the Benefits Committee meeting for the Blanchette review.

Trustee O'Brien raised a contract credit question in the Administrative Recommendation for Bonnie Rozzo, and it was confirmed that ten-month teacher contracts received one year of service credit under NHRS rules. Following an extended discussion of the Administrative Reconsideration for Richard Brewer that focused on the NHRS definition of severance pay, Trustee O'Brien moved that the \$35K Mr. Brewer received in a settlement agreement be deemed severance pay for purposes of RSA 100-A, and that the NHRS not seek recoupment under RSA 100-A:27, reversing the Board of Trustees' decision of May 11, 2010. Trustee Martins provided the second. The ensuing discussion included severance pay definitions, inclusion in NHRS retirement calculations, tax implications, as well as whether or not the \$35K paid to Mr. Brewer was tied to service or wages.

The Chair called the question, and the motion failed as follows:

*Ayes:* Trustees Macri, Giarrusso, Crombie, Martins, O'Brien, Cutting and Morrissey.

*Nays:* Sen. Bradley, Rep. Hawkins, Dr. Shapiro, Trustees Provencher, Hickey, Rockey, and McGovern.

Moved by Trustee Provencher, seconded by Trustee Rockey, the Board of Trustees voted to refer the Administrative Reconsideration for Richard Brewer to the Benefits Committee for review on the definition of severance pay. Sen. Bradley opposed the motion.

Trustee O'Brien moved to approve the Hearings Examiner's recommendation for Bonnie Rozzo, seconded by Trustee Hickey, and the Board approved by unanimous vote.

Dr. Shapiro asked Ms. France, Interim Executive Director, to introduce the next item on the Agenda, Actuarial Assumptions. In her opening remarks, Ms. France stated that the Board of Trustees had both fiduciary and statutory authority to adopt actuarial assumptions, both economic and demographic, which include the assumed rate of return. She referenced the Board materials provided to Trustees that were compiled to provide the trustees accurate, pertinent data to inform their deliberation, particularly page B-8 of the Experience Study that was distributed at the meeting for the Board's convenience. That document provided both current and proposed assumptions, with four alternatives for the Board's deliberation and consideration. Ms. France emphasized that the timing of the adoption of assumptions was important because the sooner GRS, the consulting actuary, had the assumptions, the sooner GRS could begin reconciling and verifying the demographic data, a process that required a few months' work. She noted the impact on several data points, particularly the June 30, 2011 Valuation of assets and liabilities, which is the valuation that will be used in establishing the employer contribution rates for fiscal years 2014 and 2015, which the Board would be certifying in September 2012. Ms. France referred to pending legislation that may require the Board to recertify the employer contribution rates for 2012 and 2013. She stated that timely adoption of the new assumptions would better allow GRS to calculate the recertified rates using the interim valuation of June 30, 2010, with the new assumptions, which would represent the most current information as recommended by GRS. She stated that if the Board adopted the actuarial assumptions today, the Retirement System would be better positioned to provide the Legislature with more accurate estimates on the fiscal impact of proposed legislation. Ms. France explained that to date, the fiscal notes on all legislative proposals had been based on the actuarial assumptions currently in place. The change in the demographic and economic assumptions, including the rate of return, would have an impact on the fiscal notes.

Ms. France then introduced the guest panel of consultants: David Kausch, GRS; Kevin Leonard and Erik Knutzen of NEPC; and Harold Janeway, Chair of the Independent Investment Committee (IIC). Mr. Kausch stated that the adoption of new assumptions before any legislative action requiring recertification of employer rates for 2012 and 2013 was considered best practice. By example, he stated that if the Legislature was considering legislation that would reduce the employer contribution rate by 2-3% of payroll but the new assumption rates would result in taking back 1-2% of payroll, the difference would be a significant piece of information that the Legislature would need in its deliberations. He referenced page B-8 of the GRS Experience Study and the four proposed alternatives for the Board's consideration, explaining the assumption rate and wage inflation calculations.

Dr. Shapiro then asked for Mr. Leonard and Mr. Knutzen of NEPC to discuss their risk assumptions as presented at a winter Board meeting. Mr. Leonard emphasized that NEPC's role was to advise the Board in structuring its portfolio, taking into account changes to the assumed rate of return. Mr. Leonard referenced Appendix D under Tab 3 in the Board Book, identifying NEPC's 5 to 7-year forecast and a 30-year forecast of expected investment returns. Mr. Knutzen explained the difference between the 5-7 year return forecast and a 30-year forecast.

Mr. Janeway addressed the Board in his role as the Chair of the IIC, and as such, explained and supported the IIC's recommendation to revise the assumed rate of return to 7.75%. He explained that the recommendation was driven by the Committee's search for the optimal anticipated long-term return, given an asset mix that blended opportunity and responsibility. The balance of risk and reward was at the center of all the IIC's deliberations, and the Committee had reviewed not only what the return ought to be, but also where the assets should be invested on a long-term basis. The IIC had reviewed all marketable assets, as well as the need for liquidity. He stated that NHRS drew \$100 million annually out of a pool of approximately \$6 billion, and that any implications that the System was about to run out of cash or lacked the ability to meet its commitments was demagoguery at best. He emphasized that an investment mix determined solely by liabilities was irresponsible, and that an investment return of 8.5% was both unrealistic and unreasonable. Mr. Janeway explained that the inflation factor was actually a prediction of the growth of employment and the average wages, done mostly by looking backwards. The IIC was looking forward and that his own guess is that there would be lower, slower employment growth, if any, and lower wage growth as well. Mr. Janeway acknowledged that the IIC recommendation reduced the funding ratio, but he urged the Board to accept the Committee's recommendation.

A lengthy discussion ensued, with Trustees asking questions about employer contributions, the normal cost, the UAAL, and the national trend in lowering the assumed rate of return. Trustee Cutting inquired about the risk in making a large change, from 8.5% to 7.75% as the IIC recommended. Mr. Kausch answered that a very dramatic shift alters the generational burden inappropriately, explaining that the ultimate objective of actuarial financing was to have level percentage of payroll contributions over all time so that one generation of taxpayers is not bearing the whole burden of another. He cautioned that if the assumption is too conservative, then the experience of gains over time would reduce the contribution rates, but then the current generation would be overcharged to fund a future generation. When asked about phasing in changes by the Chair, Mr. Kausch stated that it was a

complicated endeavor. If, for example, FY '12 and '13 employer rates were recertified under the current assumptions, you would have a lowering of the rates for the next two years, but the new assumptions that would be used in establishing the FY '14 and '15 rates would potentially raise the rates, making a dip and a spike. It would be better to change the assumptions to the right level before reflecting this session's legislative changes, resulting in a smaller impact from the legislation but more stable employer rates over the biennium and moving forward. That would phase in the cost of new assumptions.

Sen. Bradley offered a motion to accept the demographic and economic assumptions as presented in the GRS Five-Year Experience Study of July 2005 through June 2010, including the specific assumptions of 7.75% for the assumed rate of return and a wage growth assumption of 3.75% for Fiscal Year 2014. Seconded by Trustee O'Brien, two friendly amendments clarified the assumption rate at 7.75% and included the demographic and economic assumptions. Sen. Bradley stated that his understanding in making the motion was that the rates already set for FY '12-'13 would stay in effect. After lengthy discussion, the Chair called the vote, as follows:

*Ayes:* Dr. Shapiro, Dr. McGovern, Trustees Rockey, Crombie, O'Brien, and Sen. Bradley.

*Nays:* Trustees Cutting, Giarrusso, Hickey, Macri, Martins, Morrissey, Provencher, and Rep. Hawkins.

In response to the failed motion, Rep. Hawkins moved GRS Alternative 2, seconded by Trustee Provencher, and the Chair called the vote, as follows:

*Ayes:* Rep. Hawkins, Trustees Provencher and Hickey.

*Nays:* Dr. Shapiro, Dr. McGovern, Sen. Bradley, Trustees Rockey, Crombie, O'Brien, Cutting, Giarrusso, Macri, Martins and Morrissey.

The motion failed.

Following a brief discussion, Sen. Bradley resubmitted his original motion to accept the demographic and economic assumptions as presented in the GRS Five-Year Experience Study of July 2005 through June 2010, including the specific assumptions of 7.75% for the assumed rate of return and a wage growth assumption of 3.75% for Fiscal Year 2014 with two friendly amendments that clarified the assumption rate at 7.75% and included the demographic and economic assumptions. Sen. Bradley stated that his understanding in making the motion was that the

rates already set for FY '12-'13 would stay in effect. Seconded by Trustee Crombie, the Chair called the vote, as follows:

*Ayes:* Dr. Shapiro, Dr. McGovern, Sen. Bradley, Trustees Provencher, Hickey, Macri, Rockey, Crombie, Martins, and O'Brien.

*Nays:* Trustees Cutting, Morrissey, Giarrusso, and Rep. Hawkins.

The motion carried.

The Chair called for a brief lunch break and announced that when the Board meeting resumed, Vice Chair O'Brien would chair the remainder of the Board meeting. He asked Ms. France to discuss the portion of her memorandum under Tab 3, Interest Credited to Member Accounts. Stating that the referenced interest rate did not statutorily have to be the assumed rate of return, she recommended that the Board consider adopting a rate of interest paid on member accounts no later than its June Board meeting, so that the new rate could be applied to member accounts at the beginning of the new fiscal year, July 1, 2011. Ms. France stated that staff had no recommendation for the Board, but rather wanted to make clear that the assumed rate of return and the rate of interest credited to member accounts were separate rates that historically were the same, but were not required to be so. The Board took no action.

Ms. France asked the Board to take under consideration the information she provided regarding revised option factors to calculate optional forms of benefits. Noting that Staff recommended new option factors become effective July 1, 2012, Ms. France stated that the delayed effective date would allow for appropriate GRS analysis, but particularly timely member notification.

She then addressed the items found under Tab 4 and her monthly update. In reference to IT, Ms. France focused on infrastructure upgrades to implement any legislative mandates and Ms. Miller's and Ms. Merrill's attendance at the PRISM conference to begin vendor product review. Trustee O'Brien asked about cost and timelines for a new vendor, and Ms. France stated that she had received no cost estimates, but considered a twelve-to-thirty-six month phase in period to be appropriate.

Ms. France announced that two benefits specialists were leaving NHRS, one by resignation and one by retirement. She emphasized that group sessions were appropriately meeting member needs, and that job posting and interviewing were flowing well. In speaking to Public Information, Ms. France referenced the FAQ section of the website and its regular

review and updating. Member Benefits staff and Reception staff were seeing an average of 85 members daily. She gave retirement application statistics for June 2010 (90 applications filed) and June 2011 (513), noting that members could rescind their applications and emphasizing the jump in number from one year to the next. Trustee Rockey asked if the Board needed to, or could, provide additional support to staff. In thanking her and the full Board, Ms. France stated that staff appreciated the previous month's Trustees' visit. Ms. Miller, *Director of Member Services*, reported on the number of appointments and walk-ins, emphasizing her team's preparedness for a shift from individual to group counseling sessions to assure that all members requesting retirement assistance were seen. Trustee Provencher requested a trend analysis of applications for and actual retirements of members, and Ms. France stated she would provide those numbers from 2008 forward at the June meeting.

Vice Chair O'Brien then asked for the report from Jack Dianis, *Director of Finance*, who referenced Tab 5, page one, identifying it as the narrative of the activity for the month that explained pages three and four. He delineated the Statement of Assets on page three, identifying the snapshot of March 2010 and March 2011. He identified page four as the Budget vs. Actual spreadsheet for March 2011, and page five as providing both the Special Account Reconciliation and an Estimated COLA payment breakdown. Trustee Provencher confirmed that the numbers represented the COLA already paid out, and Mr. Dianis engaged in a discussion of the RSA applying to COLA payments through the fiscal year beginning July 1, 2011. He provided a brief budget update that included Executive Staff's April 18, 2011, meeting with Senate Finance. He stated he had provided the Trustees with an electronic copy of the presentation and had hard copies for Board members requesting one. He reported that HB 1 and HB 2 were in the Senate and were expected to be acted upon by the end of May. No changes had been made to date on the NHRS administrative budget, and he noted that the issue of how much would be paid out to political subs to subsidize their rates was dependent upon SB 3.

Trustee O'Brien moved to the Legal Update. Atty. Crutchfield asked that the Board review his quorum alternative memorandum, noting that a change to the physical quorum mandated under RSA 91-A:2 would require a statutory change. He provided the NH Business Finance Authority provision as a model for the Board to consider. Following discussion, Trustee Provencher moved that Staff draft language amending RSA 100-A to provide authority for NHRS Board of Trustee Committee meetings, excluding the Independent Investment Committee, to achieve a quorum via telephone. Seconded by Trustee Hickey, Vice Chair O'Brien called the vote, which passed as follows:

*Ayes:* Dr. McGovern, Rep. Hawkins, Trustees O'Brien, Provencher, Rockey, Hickey, Morrissey, Cutting, and Martins.

*Nays:* Sen. Bradley, Trustees Giarrusso, Macri and Crombie.

Following the vote, Sen. Bradley and Trustee Cutting excused themselves from the Board Meeting.

Vice Chair O'Brien stated he would entertain a motion to enter into non-public session under RSA 91-A:3, II(e) to discuss pending legal action referenced by the Board Agenda. Trustee Hickey moved, Trustee Morrissey provided the second, and a roll call vote was taken, as follows:

*Ayes:* Mr. O'Brien, Mr. Crombie, Mr. Giarrusso, Rep. Hawkins, Mr. Hickey, Mr. Martins, Mr. Morrissey, Ms. Provencher, Ms. Rockey, Mr. Macri, and Dr. McGovern.

*Nays:* none.

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

Trustee O'Brien then requested the Investment Committee Update from Larry Johansen, *Director of Investments*. He opened his remarks by announcing that the equity markets continued to provide strong returns for calendar year 2011. Noting that the S&P 500 had returned 9.06% for the first four months of 2011, and had closed May 9, 2011, at 1346.29, Mr. Johansen stated the index was up approximately 7.05% for the calendar year. The federal employment figures released Friday, May 6, 2011, were stronger than forecast, and employers had increased payrolls by 244,000 in April. The private sector had added 268,000 jobs but they were offset by job cuts of 24,000 by all levels of government. Mr. Johansen stated that approximately 200,000 new jobs each month were needed for a sustained recovery. In further explaining the data, he stated that the disappointing increase in the unemployment rate April to 9.0% from 8.8% in March was partly an optimistic indication of an increase in the number of people looking for jobs. He believed this was a sign of confidence they would be able to find employment continued to suggest underlying strength in the job market. He provided the following statistics indicating an economy that was slowly gaining momentum 13.7 million unemployed people in the US and another 8.6 million people who wanted to work full-time but could only find part-time positions.

Mr. Johansen referenced Tab 7, noting that the highlights of the April IIC meeting and an overview of the May Investment Committee meeting were



provided, as well as progress on the Work Plan. He reported that the transition of assets from Pyramis to PIMCO had been completed at the end of April. In presenting a brief overview of the portfolio performance for the periods ending March 31, 2011, Mr. Johansen said that for the three months ending March 31<sup>st</sup>, the total fund returned 4.6%, outperforming the blended benchmark by 60 basis points. Fiscal year to date, the total fund had returned 21.8%, outperforming the blended benchmark by 100 basis points. For the one-year ending March 31<sup>st</sup>, the total fund returned 13.8% outperforming the blended benchmark by 80 basis points. For the three years ending March 31<sup>st</sup>, the total fund underperformed the blended benchmark by ten basis points. For the five years ending March 31<sup>st</sup>, the total fund underperformed the blended benchmark by 10 basis points. For the 10 years ending March 31<sup>st</sup>, the total fund underperformed the blended benchmark by 40 basis points.

Following Mr. Johansen's remarks, Trustee O'Brien requested updates from the Board Committee Chairs. Trustee Provencher began with a review of that morning's Audit Committee meeting, at which two internal audits had been presented. She introduced and provided copies of a draft policy on the Voluntary Correction Program and Determination Letter Compliance for Board consideration, noting that the Audit Committee had both approved and voted to recommend the policy to the full Board. She expected the policy to be presented for Board approval at the June 2011 meeting. Ms. Provencher referred to the edited Audit Issues Tracker with its modified format and data detail in the legend, as had been requested.

For the Benefits Committee update, Trustee Martins reported that in addition to the two administrative recommendations referred to the Committee from today's Consent Agenda, the Committee continued to work on the recoupment policy. He hoped to convene a Committee meeting before the June Board Meeting.

In the absence of Trustee Cutting, Atty. Crutchfield reintroduced the proposed revisions to Administrative Rule Ret. 308.03 as provided to the Board at the April meeting, explaining that the rule's apparent limitation of what was authorized under statute had been reviewed and approved by the Governance Committee for Board approval. Trustee O'Brien stated that he would entertain a motion to approve the proposed revisions to Administrative Rule Ret. 308.03 as recommended by the Governance Committee and allow staff to begin the revisions through the JLCAR process. Moved by Trustee Provencher, seconded by Trustee Morrissey, the motion passed unanimously.

Trustee Giarrusso provided the update of the Legislative Committee meeting, noting the following discussion items at the morning's meeting:

potential IRS violations in pending legislation; implementation limitations of pending legislation until January 1, 2012; a GRS presentation in which Mr. Kausch recommended an order-of-magnitude analysis; direct funding of COLA's; reduction of benefits and increased costs to members; and potential recalculation dates. He stated that the Committee, as well as the Board, had decided that 2014 was the date of the recalculation of rates unless mandated by law. Ms. France noted that the opt-out language in SB 3 presented a potential IRS code violation as currently written. She reported that fiduciary counsel had advised that the opt-out provision was legal only if chosen at the time of hire.

Additionally, Ms. France spoke specifically to fiscal analysis requests and the recommendation of the consulting actuary to only review pending legislation as a whole. She stated that staff would work with GRS to develop an order-of-magnitude analysis as requested by the Board and continue to provide accurate information to legislators.

In addressing the final details of the Board meeting, Vice Chair O'Brien requested a motion on Trustee Giarrusso's travel request to attend the Market Makers 2011 June 26-29 in Laguna Beach, California. Moved by Trustee Crombie, seconded by Rep. Hawkins, the request, was approved unanimously. Trustee Crombie requested a return to the July Board-Staff Barbeque, which was agreed upon.

On a motion by Rep. Hawkins, seconded by Trustee Giarrusso, the meeting adjourned at 1:32 p.m.

*Respectfully submitted,*  
Shannan Hudgins