Note: The minutes from the June 14, 2011, regular meeting were approved and executed at the September 13, 2011, Annual Meeting of the Board of Trustees.

Regular Meeting
Board of Trustees
June 14, 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 (at 10:27 a.m.); 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;* Christine Stoddard, *Retiree Services Team Lead;* John Browne, *Internal Auditor;* Christine Basha, *Public Information Specialist;* Ann Forrestall, *Benefits Specialist;* and Shannan Hudgins, *Administrative Coordinator*.

The Chair called the meeting to order at 10:02 a.m., stating she would entertain a motion to approve the May 10, 2011 public and non-public Board minutes. Moved by Trustee Giarrusso, and seconded by Trustee O'Brien, the minutes were approved unanimously.

She next stated she would entertain a motion to approve the Consent Agenda as presented, or with exceptions. Trustee Martins moved to approve the Consent Agenda as presented, and a second was provided by Trustee O'Brien. Discussion was limited to Trustee O'Brien's concern regarding the timeliness of the cases presented to the Board, and he requested Management's review of the process for efficiency and timeliness in responding to members' appeals. The Chair called the vote, which was unanimous.

The Chair asked Interim Executive Director, Kim France, to introduce HayGroup consultants and their update to the Board. Ms. France and Nancy Miller, Director of Member Service, introduced Steve Caddy and Myriam Michaels and their presentation of progress and expected outcomes from their year's work with NHRS on organizational development. Ms. France made note that the project was being extended 30-60 days to ensure satisfactory completion. Mr. Caddy and Ms. Michaels presented their progress to date, focusing specifically on performance metrics.

Mr. Caddy began the presentation with a timeline of their project, confirming that the final report would be delivered by the end of August 2011. He stated that their evaluation included review of work processes with employee focus groups, where he and Ms. Michaels had assessed those processes, accountabilities, and organizational structure currently in place at NHRS. Through the data collection process they had reached conclusions and reworked business units to maximize employee potential, efficiency, and productivity. In assessing implementation of their suggestions, Mr. Caddy stressed that a team-based approach to change would lead to a better-performing organization. In conclusion, he stated that performance metrics were one of their key deliverables. Detailed job descriptions, performance management plans, an employee development tool, and classification and grading recommendations, would all be ready for consideration by the executive management team and Board, and potential implementation by the end of August. Once the recommendations were in place for implementation, Mr. Caddy suggested that the Board not only define the expectation of change, but also create a measurement tool to evaluate the effectiveness of that change. He closed by recommending there be someone in the organization responsible for accountability and that there be an action plan to address issues that arose.

Following a brief discussion period, a few material questions were posed: Trustee Rockey asked when the "To Be Determined" spots would be filled in; Trustee Provencher asked whether performance metrics recommendations within business units would be provided; Trustee O'Brien asked that in addition to final recommendations, an executive summary be delivered before the final presentation for Board review. Trustee O'Brien also suggested Mr. Caddy to work with NHRS' governance consultant, Nancy Williams, Esq.

Chair Shapiro asked about the Board's role in adopting a shift in performance metrics that would result in a change in the organizational structure of NHRS. She stated that once Hay had delivered an executive summary, she and Ms. France would organize the inclusion of published information in board packets, and schedule both a Board meeting for review with HayGroup in attendance, as well as a follow-up meeting for Board action with HayGroup. Ms. France clarified that the deliverables from Hay would be recommendations to the Executive Management Team, and that the Executive Management Team would present its review to the Board through the Personnel Performance Compensation Committee (PPCC). She viewed the completion stages of the project as a collaborative process as originally contracted with HayGroup

In his closing statements, Mr. Caddy stated that an organization's success in effecting real change was in identifying the right things to measure and to measure them rigorously.

The Chair asked Ms. France to introduce the discussion topic for Tab 4, Valuation Process and Timeline. Ms. France stated that she had asked David Kausch and Judy Kermans, of Gabriel, Roeder, Smith & Company, (GRS) to speak to the standard actuarial valuation process, giving the Board a primer on the purpose and timeline of biennial actuarial valuations. She reminded the Board that NHRS had received its five-year experience study in March 2011, and in the past several years had received both biennial and interim valuations. Ms. France introduced Mr. Kausch and Ms. Kermans, each of whom discussed valuation processes and employer contribution rate setting in a presentation that identified the theories and practice of actuarial science as applied to public pension plans.

Mr. Kausch began by stating that the objective of a valuation was to measure the financial health of the System by examining the funding status and employer contribution rates. Consistent and up-to-date plan information was the goal, so that from the valuations performed in odd years, i.e., 2009 and 2011, the Board would have the necessary information to set employer contribution rates for the biennium two years ahead. He stated that although even-year valuations were optional, they helped gauge where the next set of rates were headed. From a timeline perspective, Mr. Kausch noted that the June 30, 2009 valuation had been used to set the statutory rates for FY 2012 and FY 2013, which the Board certified September 14, 2010. Following the timeline as presented, the June 30, 2011 valuation would be used to determine employer rates for FY 2014 and FY 2015, with the report presented to the Board in November-December 2011, and the Board expected to certify rates in September 2012.

Mr. Kausch discussed the usefulness of interim valuations, noting that the results were used for the annual Comprehensive Annual Financial

Report (CAFR), were useful in estimating future biennial budgets, and provided more current data for legislative studies. The valuation process began with the initial flow of information from NHRS to GRS, with member data and financial data provided by the System to the actuary, with asset information finalized in September. In return, GRS assisted with development of the CAFR in October, the presentation of the results of the valuation in November, followed by the report that was usually issued at the November Board Meeting. The Board then had approximately nine months to consider the information before adopting contribution rates. Mr. Kausch continued with a discussion of actuarial considerations that included the mechanics of evaluating plan obligations and allocating costs, with the objective of level percent of payroll financing that would ensure a goal of intergenerational equity for taxpayers. He concluded by emphasizing that the intent of an experience study was to assist the Board in setting actuarial assumptions that were in the best interest of the institution, outside of any legislative developments.

Dr. Shapiro asked about the benefit of an annual valuation, which GRS had delivered to NHRS throughout its current contract. Mr. Kausch stated that current data was particularly useful in cost estimations for legislative proposals, as well as budget planning over five years to accommodate any necessary smoothing needed to account for a large asset loss, such as NHRS experienced in 2009. Ms. Kermans added that drastic changes in the market over the past five years had increased the value of annual valuations.

Trustee Provencher discussed the statute-driven schedule for rate setting in New Hampshire, suggesting that the biennial history of setting rates was most likely tied to the State's biennial budget cycle. She also confirmed that the actuarial method used by NHRS was driven by statute, as was the amortization period. Mr. Kausch confirmed that both the actuarial and amortization practices used by NHRS were considered best practice. Atty. Crutchfield clarified that RSA 100-A:16 required NHRS to set the State rates every two years, and annually for non-state employers, but NHRS had traditionally set political subdivision rates with the State rate schedule. Trustee Provencher asked for clarification of the Board's authority and that of the Legislature, specifically if the Legislature should direct the Board to recertify employer contribution rates for FY 2012 and FY 2013, using these assumptions.

Atty. Ian Lanoff, of Groom Law Group, stated that there were two kinds of statutory provisions involving funding and rate setting. One was that the NHRS Board had the authority to set rates. To the extent that the Legislature attempted to direct the Board to set rates, it could potentially be a constitutional violation because it would be changing the Board's authority under the NH Constitution. He stated that the second kind of issue would be setting the 30-year amortization schedule. If there came a point where the Legislature set the amortization rate at a point that would significantly harm the actuarial soundness of the fund, based on the actuary's advice, even though the Legislature had the authority to do so, the Board might have the obligation to sue the State because it was doing something that would harm the actuarial soundness of the fund. Dr. Shapiro stated that the Board was aware that the actuarial method set by statute impacted the rates that could be set, noting that for seventeen years the Legislature had set an actuarial method that confined what employer rates could be. She asked how the Board should decide when the Legislature has pushed too much. Atty. Lanoff stated that the Board should protect its authority to continue to set rates, and if the Legislature did something that would interfere with that authority to such an extent then the Board would have to challenge it. Both the methodology and rate-setting authority could result in potential constitutional challenges.

Trustee Cutting asked why Atty. Lanoff, who had opined in the past with respect to changes in the authority of the Board that the Board did not have a position to challenge, was now suggesting just the opposite. Atty. Lanoff answered that with respect to the Independent Investment Committee (IIC), the Board maintained authority of oversight. If the Legislature usurped the power of the Board to set contribution rates, Atty. Lanoff stated it was his view that the Board would have a constitutional basis for opposing that legislation. Trustee O'Brien stated that although there was some ambiguity, he understood that the Board was responsible for investment policy, and that the Board had a fiduciary responsibility to review the regular IIC reports. Rep. Hawkins stated that he believed the language in the legislation did not set the rates, but rather instructed the Board to reset the rates.

The Chair thanked Mr. Kausch and Ms. Kermans for their presentation and asked Ms. France to present her proposal for the extension of the GRS contract. Ms. France discussed the two proposals before the Board for consideration. She stated that Option 1, renewal through December 31, 2013, represented staff's recommendation for completion of current obligations, continuity of work processes, and an appropriate timeframe for an RFP (request for proposal). In describing Option 2, renewal through June 30, 2012, she stated that the timeframe was narrow but could be accomplished. Dr. Shapiro asked whether a December 31, 2012 contract date was a viable option, to which Mr. Johansen responded that a December 31, 2013 contract date was ideal. He stated that the transition period would be difficult to manage with a new actuary, who would be tasked with completing reports initiated by GRS.

Atty. Crutchfield confirmed that the proposed extension was allowed by the current contract.

On a motion by Trustee Hickey, seconded by Rep. Hawkins, the Board of Trustees voted to extend the Agreement with GRS for actuarial services through December 31, 2013, as follows:

Ayes: Rep. Hawkins, Sen. Bradley, Trustees Provencher, Hickey, Morrissey, Cutting, McGovern, Macri, Rockey, Giarrusso, Crombie and Martins.

Nays: Chair Shapiro and Vice Chair O'Brien.

Ms. France continued her report with discussing the Foster Pepper memorandum regarding advisory board participation by staff. Atty. Lanoff concurred with the Foster Pepper recommendation, noting that institutions benefited from such associations, and that it would be an advantage to NHRS to have staff on investment advisory boards. Mr. Johansen stated, in response Trustee O'Brien's query, that developing a policy for Board review and approval was part of the IIC Investment Work Plan for the first quarter of fiscal year 2012.

In her administrative update, Ms. France reported that two benefits specialist positions, one employer services position, and one position in human resources were vacant and that the work with HayGroup would be helpful in overall organizational development. She also reported that six employees were out under the federal Family Medical Leave Act, and the cumulative impact on the small workforce was significant.

Ms. France opened the member benefits update by stating that only two benefits specialists were on staff at present (one was on medical leave and two positions were vacant). She reported 34 individual sessions and 23 group sessions had been scheduled for June, reminding the Board that resources were not available for one-on-one sessions. She also stated that members had been very open to the group sessions. Ms. France provided statistics for retirement applications, noting that NHRS had 811 retirement applications for July 1, 2011, but that the date for rescinding was a few weeks away. She reported the following historic retirement figures:

- July 1, 2010: 445
- July 1, 2009: 822
- July, 1 2008: 979.

Dr. Shapiro asked for annual retirement figures, which were provided by Ms. Miller:

- 2010: 1,629
- 2009: 1,854
- 2008: 1,801

Ms. Miller stated that for the ten months of 2011, she had 1,362 on the annuity payroll. Because annuity checks were issued at the end of the retirement month, she could only provide accurate data for ten months of FY 2011.

Dr. McGovern asked if the staff cookout following the July Board meeting would occur, and was assured by Dr. Shapiro that it would.

The Chair asked for Committee reports, beginning with the Legislative Committee and Trustee Giarrusso for his report. He read the following informational motion from the May 31, 2011, Legislative Committee meeting:

> On a motion by Dr. McGovern, seconded by Trustee Macri, the Legislative Committee voted to report to the Board that on the advice of fiduciary counsel, the proposed language in SB3 will not impede the NHRS Board of Trustee's authority to set the rates at 7.75% for FY 2012 and 2013.

Trustee Giarrusso continued by stating all the actuarial assumptions provided by GRS were included.

Trustee McGovern moved that she would like the Board of Trustees to provide the Governor, the Legislature, and the public, information to correct misinformation in the Preamble of SB3 referencing NHRS' solvency. Seconded by Trustee Rockey, the Board entertained an extended discussion regarding the broad, general language in the Preamble that misrepresented the solvency of NHRS, as well as the long-term actuarial viability of the System. Dr. Shapiro asked when the motion had been taken by the Committee, and was answered by Trustee Giarrusso that the Committee had acted that morning. She then asked for a review of staff action regarding the specific language, noting that staff had been responsive and timely with all legislative material.

Ms. France stated that "Findings and Intent" had only been part of the final amendment, which had been adopted by the Legislature. Staff and fiduciary review focused on vesting, as defined in the amendment and as a potential contractual impairment litigation issue. Ms. France referenced governance consultant Nancy Williams, Esq., and her recommendation to the Board at the April 2011 Board meeting that it issue a statement of facts.

Trustee Provencher stated she would not support the motion. Although she recognized that the System was not insolvent, she would vote against the motion because she believed it was the Legislature's statement that the NHRS must continue to be solvent. Trustee Rockey stressed that the errors of fact in the legislation were worthy of correction by the Board. Sen. Bradley stated that the statement about the $3.72 billion unfunded liability in the pension system and the $976 million unfunded liability in the medical insurance subsidy plans was indeed factual, and when questioned by Trustee Giarrusso, Ms. France agreed that the numbers were indeed correct.

Dr. Shapiro asked about the vote tally on the motion in the Legislative Committee that morning, and it was confirmed the vote was unanimous, absent Rep. Hawkins, who had departed for the Legislature. In response to the Chair's question regarding the content of the message, Dr. McGovern stated that the language of the message would be crafted by Board members, quoting IIC Chair Harold Janeway from the May 10, 2011 Board of Trustees meeting. Trustee Provencher noted that the Preamble language would not be in the RSA but only in chapter law.

Dr. Shapiro called the question and the motion passed, as follows:

Ayes: Trustees Morrissey, Cutting, Macri, McGovern, Rockey, Giarrusso, Crombie, and Martins.

Nays: Trustees Shapiro, O'Brien, Provencher, Hickey, Rep. Hawkins, and Sen. Bradley

The Board Chair asked that any material disbursed to the public on the motion also reflect the roll call vote.

Senator Bradley moved that any press statement, letter, or other correspondence coming from the Executive Director about the motion that was just taken be reflective of the fact that the motion succeeded on a vote of the Board, 8-6. Seconded by Rep. Hawkins, with clarification from Trustee Rockey that the motion named the Board of Trustees as the authors of referenced statements, Sen. Bradley offered a subsequent clarification to his motion that any public statements issued be reflective of the fact that it was a vote of the Board, 8-6. Trustee Hickey requested that the last fifteen minutes of Board discussion be included in the meeting minutes.

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

Ayes: Sen. Bradley, Rep. Hawkins, Trustees Shapiro, O'Brien, Crombie, Giarrusso, McGovern, Provencher.

Nays: Trustees Rockey, Cutting, Morrissey, Martins, Hickey, Macri.

Trustee Giarrusso suggested that Dr. McGovern work with Ms. France to craft the public message. Ms. Miller requested clarification on the directive for Senior Staff in creating language specified in Dr. McGovern's motion that the Board passed. Dr. McGovern suggested material on the website and Mr. Janeway's quotation be included. Dr. Shapiro asked that Dr. McGovern write the memorandum, specifying that the content of the clarification was the responsibility of the Board. Ms. France would attach the Board's statement to her cover letter delineating the Board's action, as directed by the Board.

Trustee Giarrusso next discussed the GRS fiscal notes dated June 13, 2011, located behind Tab 4 of the Board materials. Trustee Giarrusso moved that the Board of Trustees use the Fiscal Note Option A (based on new actuarial assumptions), page 21 of GRS report dated June 13, 2011, for fiscal note purposes for Senate Bill 3. The motion was seconded by Trustee Morrissey.

Dr. Shapiro cautioned the Board to proceed with care in any discussion of recertification of rates when pending legislation had not become law, and without benefit of consulting actuary's recommendation or advice from fiduciary counsel. In his explanation, Trustee Giarrusso stated that two fiscal note analyses were requested from GRS, one using the current assumptions of 8.5%/4.5% and the other using the newly adopted assumptions of 7.75%/3.75%. Following an extended discussion of fiscal note preparation for the Legislative Budget Assistant Office (LBAO), Ms. France explained that the two analyses were prepared so that the Board could provide her guidance in her duty to provide appropriate information to the LBAO. Dr. Shapiro stated that Ms. France had worked diligently with the Legislature to ensure that language in the legislation did not "tie the Board's hands" in recertification. The documents offered an appropriate range for the Board's consideration, and she asked that the Board exercise caution in making any decision regarding fiscal note options.

Asked by Dr. Shapiro for comment, Atty. Lanoff stated that he disagreed with the opinion offered by GRS, although he did not have a written commentary. He did not agree with GFOA policy that GRS relied upon. He did not believe there was sufficient basis in the record for the Board to move forward. When asked whether there had to be an agenda prior to a public meeting, Atty. Crutchfield stated there was no statutory requirement for an agenda.

Trustee Martins asked for Atty. Lanoff's qualification and expert training to disagree with an actuarial valuation. Atty. Lanoff stated that the latest letter from GRS, dated June 13, 2011, gave a legal opinion and he was qualified to disagree with a legal opinion. He stated that the letter basically reached the conclusion that if the Board was not going to use the new assumption, it would be violating its fiduciary duty, and he disagreed with that conclusion. He felt there were arguments that would permit the Board to not use the new rate. Atty. Lanoff stated that the Board must decide how to act within its fiduciary duty and that an actuary could not advise them on such a matter. He stated that he believed GRS had reached the wrong conclusion.

Extended discussion among Trustees included process and due diligence; the conflict between a hasty decision made in a heated environment and one made with full information; the pressure of time; and the tremendous budgetary effect of any Board decision. Atty. Lanoff stated that the GRS document did not address funding appropriately, and the actuarial report did not support the necessity of using 7.75% in 2012.

Dr. Shapiro expressed her concern that the Legislative Committee had placed an item on the agenda at the last minute. Trustee Giarrusso stated that the Committee was following its due diligence and process in evaluating pending legislation and its effect on the System. Dr. McGovern stated her concern was related to the System not being able to fulfill its future obligations if $200 million went out of the corpus through reduced rates. Mr. Dianis explained that the fiscal note analyses were to give Staff guidance in assisting agencies in their pending obligations. He suggested the Board table the motion on the floor and provide both scenarios in the GRS letter to the LBAO. Ms. Miller concurred by stating that the Board would be able to more carefully review the material before them.

Dr. Shapiro asked for a rereading of the motion on the floor and then called for a five-minute recess to verify parliamentary procedure. Upon reconvening, Dr. Shapiro stated that a motion to table takes precedence over a motion of the floor and is non-debatable.

Sen. Bradley moved to table the motion on the floor. Seconded by Rep. Hawkins, the Chair called the vote on the motion to table, which failed as follows:

Ayes: Sen. Bradley, Rep. Hawkins, Trustees Provencher, Hickey, Chair Shapiro, Vice Chair O'Brien.

Nays: Trustees Morrissey, Cutting, McGovern, Macri, Rockey, Giarrusso, Crombie, Martins.

The Chair next called the vote on the motion on the floor for the Board of Trustees to use the Fiscal Note Option A (based on new actuarial assumptions), page 21 of GRS report dated June 13, 2011, for fiscal note purposes for Senate Bill 3. The motion passed as follows:

Ayes: Trustees Macri, McGovern, Rockey, Giarrusso, Crombie, Martins, Cutting, Morrissey.

Nays: Chair Shapiro, Vice Chair O'Brien, Sen. Bradley, Rep. Hawkins, Trustees Provencher, Hickey.

Trustee Giarrusso moved that if legislation requiring a recertification of 2012-2013 employer contribution rates becomes law, the most current actuarial assumptions shall be used, including the 7.75%/3.75% assumption rates adopted at the May 20, 2011 Board meeting. Seconded by Trustee Rockey, a discussion followed that focused on the impact of using certain assumptions in recertification. Dr. Shapiro asked Mr. Kausch and Ms. Kermans to discuss their recommendations. Mr. Kausch stated first, that they did not practice law and their letter of June 13, 2011, was never intended to be taken in a legal context but strictly from an actuarial context. On the question of which assumptions to use, Mr. Kausch stated they had undergone a deliberative process in which their best expectations of future outcomes were presented, along with their advice on issues of best practice in actuarial matters. He emphasized that the Board had flexibility to choose. Ms. Kermans stated that they had experience with plans that paid less than the Annual Required Contribution (ARC) and they would prepare documents if the Board wished them to.

Dr. Shapiro reminded the Board that consulting actuaries and fiduciary counsel disagreed about recommendations; that the motion to decide on assumptions to use for 2012 and 2013 was not on the agenda; the Board had not had preparation on different options or smoothing; the impact on 475 employers facing restructuring had not been reviewed, given the impact of SB3 language and HB2 and the State's contribution change; there was no written legal opinion from Atty. Lanoff regarding the Board's flexibility or requirements regarding the actuary; no scenario analysis had been received from the actuary; stability impact of changing rates in the middle of a budget cycle for the 475 out of 476 employers. She stated that voting against the motion today did not preclude Board members from voting for it in the future.

Trustee O'Brien moved to table the motion on the floor. Seconded by Trustee Hickey, the motion failed, as follows:

Ayes: Sen. Bradley, Rep. Hawkins, Trustees Provencher, Hickey, Chair Shapiro, Vice Chair O'Brien.

Nays: Trustees Morrissey, Cutting, McGovern, Macri, Rockey, Giarrusso, Crombie, Martins.

The Chair called the question for the motion on the floor, that if legislation requiring a recertification of 2012-2013 employer contribution rates becomes law, the most current actuarial assumptions shall be used, including the 7.75%/3.75% assumption rates adopted at the May 10, 2011 Board meeting. The motion passed, as follows:

Ayes: Trustees Morrissey, Cutting, Macri, McGovern, Rockey, Giarrusso, Crombie, Martins.

Nays: Sen. Bradley, Rep. Hawkins, Chair Shapiro, Vice Chair O'Brien, Trustees Provencher, Hickey.

Dr. Shapiro next requested the Governance Committee report. She then temporarily turned the meeting over to Vice Chair O'Brien. Trustee Cutting offered a recapitulation of the morning's Governance meeting. Firstly, he moved the Governance Committee recommendation to the full Board of Trustees to waive Attorney-Client privilege on the Groom memos dated May 10, 2011 and June 10, 2011, respectively. Seconded by Trustee Provencher, the motion passed unanimously.

Secondly, Trustee Cutting moved the Governance Committee's recommendation to deny the allowing of fiduciary counsel to compensate external counsel for work related to advising NHRS on the indemnification policy. Seconded by Trustee Giarrusso, Atty. Crutchfield provided the Board with details regarding the indemnification review for the IIC and the requested change to 100-A to provide indemnification for non-trustee members of the IIC. The motion passed unanimously.

Thirdly, Trustee Cutting moved the Governance Committee's recommendation that staff's language to secure the proposed quorum amendment to 100-A:14-a, that would allow telephonic participation of subcommittee members in subcommittee meetings to satisfy the meeting quorum, excluding IIC and full Board of Trustees meeting, be approved by the full Board. Seconded by Trustee Morrissey, Trustee Cutting reminded the Board that the issue had been fully discussed and vetted at a previous meeting. Atty. Crutchfield added that he would work diligently work to get the change into legislation. The Vice Chair called the question and the motion passed unanimously.

Vice-Chair O'Brien requested the Audit Committee report from Trustee Provencher, who provided a brief review of the KPMG report, which included changes to pension accounting rule changes, which would be presented on at the Board Meeting on July 12, 2011. Rep. Hawkins discussed two date changes on the Audit Tracker. On a motion by Trustee Provencher, seconded by Trustee Hickey, the Board of Trustees voted to unanimously approve the Voluntary Compliance Policy (VCP) as recommended by the Audit Committee.

For his Benefits Committee report, Trustee Martins stated that the proposed recoupment policy and the draft financial affidavit were provided for Trustee review and would be on the agenda for vote at the July meeting. Trustee Martins moved to take off the table the administrative recommendation of R. Blanchette and accept the recommendation of the Benefits Committee to reverse the recommendation of the Hearings Examiner based on the unique facts of this case and continue the vested deferred pension benefit. Seconded by Trustee Morrissey, the motion passed as follows:

Ayes: Trustees Martins, Crombie, Giarrusso, Rockey, McGovern, Macri, Cutting, Morrissey, Hickey, Provencher, O'Brien.

Nays: Rep. Hawkins.

Trustee Martins moved to take off the table the administrative recommendation of R. Brewer and accept the recommendation of the Benefits Committee to uphold the recommendation of the Hearings Examiner. Seconded by Trustee Morrissey, the motion passed as follows:

Ayes: Trustees Martins, Crombie, Giarrusso, Rockey, McGovern, Morrissey, Provencher, O'Brien, Rep. Hawkins.

Nays: Trustees Cutting, Hickey, Macri.

Abstention: Chair Shapiro.

Trustee Hickey, as Chair of the Personnel, Performance, Compensation Committee, moved to enter into non-public session under RSA 91-A:3, II(c) to discuss matters which, if discussed in public, would likely affect adversely the reputation of any person, other than a member of the public body itself, specifically the search for an Executive Director. Seconded by Dr. Shapiro, the motion carried as follows:

Ayes: Dr. Shapiro, Mr. O'Brien, Mr. Crombie, Mr. Giarrusso, Mr. Hickey, Mr. Martins, Mr. Morrissey, Ms. Provencher, Ms. Rockey, Mr. Cutting, Mr. Macri, Dr. McGovern.

Nays: None.

All Staff and the public attendees were excused from the non-public session. Atty. Ian Lanoff, fiduciary counsel, remained.

On a motion by Mr. O'Brien, seconded by Dr. McGovern, the Board of Trustees concluded the non-public session.

Moved by Trustee Morrissey, seconded by Trustee O'Brien, the Board of Trustees voted to initiate a search process for an Executive Director, as follows:

Ayes: Chair Shapiro, Vice Chair O'Brien, Trustees Morrissey, McGovern, Giarrusso, Crombie, Martins.

Nays: None.

The Chair requested the Finance update from Mr. Dianis, who referred Board members to the financial report behind Tab 7. He next addressed budget details, noting that both HB1 and HB2 were in Committee of Conference phase of the budget process. The Senate passed budget had one change, to move money from the Information Technology (IT) cost line to a new budget line for IT equipment, of $100,000. He emphasized that the total budget did not change, only the allocation. Mr. Dianis further noted that the budgeted General Fund payment to political subdivisions had been entirely removed by the Governor from his recommended budget. The House appropriated grants of $4.6 million one year and $2.7 the second year, and now the Senate's version states that if FY 2012, SB3 pension savings are less than 25% of political subdivision retirement costs under current rates, the Senate will appropriate and pay the political subdivisions the difference. Mr. Dianis also made note of the $89 million transfer to the State Annuity Accumulation Fund from the Special Account found on the statement on page 5 of his finance report.

Mr. Dianis next addressed the NHRS budget, explaining that the NHRS budget was comprised of the Trust Fund Budget and the Administrative Budget. The Trust Fund Budget had an investment portion and a professional and other consulting fees portion. He pointed out the individual pieces of the budget to show how each one related to the CAFR. He then stated his understanding that the Administrative Budget had been approved by the Board on September14, 2010, but not with the changes reflected during the legislative phase of the budget process. He further suggested that the Trust Fund Budget be placed on a one-year cycle and asked for the Board's endorsement. Following an assessment of the Trust Fund budget, the Board made the following decisions.

Trustee Provencher moved that the Board of Trustees concur with the NHRS Administrative FY 2012-13 Budget as it appears in HB1. Seconded by Trustee Rockey, the motion passed as follows:

Ayes: Trustees Morrissey, Provencher, McGovern, Rockey, Crombie, Martins, Shapiro.

Nays: Trustees O'Brien, Giarrusso.

Dr. McGovern moved that the Board of Trustees adopt the NHRS Trust Fund FY 2012 Budget as presented by Jack Dianis, Director of Finance. Seconded by Trustee Rockey, the motion passed, as follows:

Ayes: Trustees Morrissey, Provencher, McGovern, Rockey, Martins, Shapiro.

Nays: Trustees O'Brien, Giarrusso.

Following confirmation that the legal update contained no new material, Dr. Shapiro asked for a brief investment report from Mr. Johansen, stating for the record that the Quarterly Investment Report and review would be postponed until the July Board meeting. Mr. Johansen presented a broad commentary on the US economy, noting that the broad equity markets had slowed down since April, primarily due to concerns about the slowing down of the economy. He stated that the most recent employment figures were lower than forecast, 14 million Americans were unemployed, and 8.6 million people were working part time, but seeking full-time employment. He referenced his investment materials, located behind Tab 9, and stated he would present the Third Quarter Investment Report in July.

On a motion by Trustee Morrissey, seconded by Trustee Rockey, the Board of Trustees approved the three trustee travel requests contingent upon the realignment of the Board makeup, as follows:

Ayes: Trustees Provencher, Morrissey, Rockey, Crombie, Martins, Giarrusso, O'Brien.

Nays: Trustees Shapiro, Hickey.

Abstention: Dr. McGovern.

On a motion by Chair Shapiro, seconded by Trustee Hickey, the Board unanimously voted to adjourn at 4:05 p.m.

Respectfully submitted,
Shannan Hudgins