

NHRS Board of Trustees,
August 9, 2011

Note: The minutes from the August 9, 2011, regular meeting were approved and executed at the October 11, 2011 regular Meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
August 9, 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*, Kate McGovern, Ph.D., Brian Morrissey, Tara Reardon, Don Roy, John Wozmak. Dean Crombie, Keith Hickey, Cathy Provencher, *absent*.

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*; John Browne, *Internal Auditor*; and Shannan Hudgins, *Administrative Coordinator*.

Guests: David T. Kausch, *GRS*; Ian Lanoff, Esq., *Groom Law Group*; Andrew Schulman, Esq., *Getman, Schulthess & Steere*

Dr. Lisa Shapiro, Chair, called the regular meeting of the Board of Trustees to order at 9:10 a.m., recognized new Trustee Don Roy, welcomed everyone and asked that the assembled group introduce themselves. After a brief explanation of the minutes, and with Atty. Crutchfield, Chief Legal Counsel, noting that any motion required at least seven votes, Dr. Shapiro stated she would entertain a motion to approve the June 14, 2011, public and non-public minutes. Moved by Trustee O'Brien and seconded by Trustee Morrissey, a friendly amendment was offered by Trustee McGovern on page 16 of the public minutes to correct the voting error on trustee travel requests, noting she had abstained. Dr. Shapiro called the vote, as follows:

Ayes: Trustees Shapiro, O'Brien, McGovern, Morrissey, Reardon, and Roy.

Nays: None.

Abstention: Trustee Wozmak.

The motion failed without the required seven votes, and Dr. Shapiro stated that all the pending draft minutes would be moved to the September Agenda for consideration.

She continued to the August Consent Agenda, asking Atty. Crutchfield to provide a brief explanation of its structure and purpose. Atty. Crutchfield explained that the items listed on the Consent Agenda were ministerial in nature, and did not usually require substantive discussion, such as the Hearings Examiner's recommendations. Dr. Shapiro explained the process of removing an item from the Consent Agenda for questions and further discussion. Trustee O'Brien moved approval of the August Consent Agenda, with the exception of the two service purchase requests. Dr. Shapiro asked that the disability recommendations of D.M., J.V., and the Administrative Reconsideration of Richard Welch be removed. Trustee McGovern requested the Administrative Recommendation of Robert Grugnale also be removed. Trustee Morrissey provided a second and the Consent Agenda, as revised, passed unanimously.

Dr. McGovern wished to discuss staff's efforts in educating members about Medicare eligibility in relation to the Grugnale recommendation. Facilitated by Interim Executive Director Kim France, the discussion of member notification regarding Medicare eligibility ensued. Nancy Miller, Director of Member Benefits, described the initial retirement interview members have with benefits specialists, emphasizing the ongoing nature of retirement-detail communication that included Employer Services and Retiree Services. She referenced standard forms, newsletters and the ongoing review within the organization to better refine communication with retirees and employers. Denise Call, Director of Employer Services, described the internal system triggers that were in place to automatically reduce the medical subsidy payments for retirees upon reaching age 65. She noted that in the case before the Board, the member had become Medicare-eligible before he reached 65. She stated that the annual medical subsidy questionnaires were a valuable tool in identifying overpayments and with the System's increased education efforts, staff expected that the Board would see a decrease in cases brought to them regarding medical subsidy recoupment.

On a motion by Trustee McGovern, seconded by Trustee O'Brien, the Board unanimously approved the Hearings Examiner's Administrative Recommendation for Robert Grugnale.

Dr. Shapiro then addressed the process issues raised with the Administrative Reconsideration for Richard Welch, noting that since this was a reconsideration of a prior Board decision, Mr. Welch's next option, if he did not prevail upon reconsideration, would be to seek a review from the NH Supreme Court. Upon Atty. Crutchfield's verbal recommendation due to the extensiveness of the Hearings Examiner's recommendation and accompanying exhibits, she referred the case to the Benefits Committee for review.

Trustee O'Brien requested clarification on the number of days of employment in a month as counted in service purchase requests. Atty. Crutchfield explained that the administrative rules stated that an employee received credit for the initial month of hire, even if he or she worked just one day in that first month. For service credit in other months, a member must work half the business days of the month, including the month in which the member terminated service. With the explanation, Trustee O'Brien moved that the two service purchase requests be approved. Seconded by Trustee Morrissey, the motion passed unanimously.

To facilitate discussion of the disability recommendations removed from the Consent Agenda, Dr. Shapiro stated she would entertain a motion to enter into non-public session under RSA 91-A:3, II(c). Moved by Trustee O'Brien, seconded by Trustee Morrissey, the roll call voted followed:

Ayes: Trustees Shapiro, O'Brien, McGovern, Morrissey, Reardon, Roy, and Wozmak.

Nays: None.

The Board entered non-public session.

On a motion by Trustee O'Brien, seconded by Trustee Morrissey, the Board concluded the non-public session by unanimous vote.

On a motion by Trustee Morrissey, seconded by Trustee O'Brien, the Board voted unanimously to uphold the recommendations of the Hearings Examiner for D.M. and J.V.

Dr. Shapiro next stated she would entertain a motion to approve the July Consent Agenda. Moved by Trustee O'Brien, seconded by Trustee McGovern, the motion passed unanimously.

Dr. Shapiro asked Atty. Crutchfield to update the Board on any news regarding current court cases involving the NHRS. Atty. Crutchfield noted that the briefing schedule for the Local Government Center (LGC)

suit had recently been issued. The Petitioners had to submit their brief by September 6, 2011, and the State of New Hampshire and NHRS had to respond by October 6, 2011. Any subsequent filings were due November 6, 2011.

On a motion by Trustee O'Brien, seconded by Trustee Morrissey, the Board unanimously voted to temporarily adjourn the meeting to consult with legal counsel under RSA 91-A:2, I(b).

Following consultation with legal counsel, on a motion by Trustee O'Brien, seconded by Trustee Morrissey, the Board unanimously voted to reconvene the Board meeting.

Dr. Shapiro requested a report from Interim Executive Director Kim France, who presented the trustee orientation plans for the September meeting, noting the session would include fiduciary and governance education as well as an investment committee overview. She also noted that the annual meeting would include setting the meeting schedule for the upcoming year, as well as a discussion about board committee structure. In her legislative update, Ms. France discussed regular meetings of the Implementation Team that had been formed with the passage of HB2 and pension software requirements to enact all of the legislative provisions.

Larry Johansen, Director of Investments, offered an outline of the Independent Investment Committee (IIC) procedure, staff preparation, and meeting schedule as a brief orientation for new Board members. He noted that meeting minutes were promptly posted to the NHRS website and that IIC updates were a regular part of his monthly report to the full Board.

He then moved to his report, stating that the equity markets had substantially retreated from their high at the end of April. The S&P 500 had returned 9% for the first four months of 2011 and the S&P 500 had returned 6% for the first six months of 2011. He reported that the S&P 500 had closed down about 6.6% on Monday, August 8, 2011, at 1119.46, down almost 11% for the calendar year.

The federal employment figures that were released on Friday, August 5, 2011, were much stronger than forecast, revealing that employers had increased payrolls by 117,000 in July. He cautioned, however, that approximately 200,000 new jobs each month were needed for a sustained recovery. Although the national unemployment rate had dropped to 9.1% in July from 9.2% in June, those numbers actually reflected workers who had ceased looking for work and consequently no longer counted in unemployment data.

He stated that continuing concerns about the US economy continued to have an adverse effect on the stock market. Additionally, Mr. Johansen addressed overall concerns about the ratings downgrade on Friday, August 5, 2011, by S&P of US debt from AAA to AA+ despite the compromised reached by Congress to increase the nation's debt ceiling on the August 2nd deadline. He noted, however, that on Monday, August 8, 2011, both Moody's and Fitch had affirmed their AAA rating of US debt. Generally, this reinforces concerns about a sustained recovery in the US economy.

Mr. Johansen offered a brief over view of the portfolio performance for the periods ending June 30, 2011, referring Trustees to the materials behind Tab 5, as well as the preliminary Flash Report distributed at the meeting. He emphasized that the numbers represented were preliminary results only, reflecting tentative performance, and would be finalized in late September.

After a brief period of questions and answers, Mr. Johansen presented the Fiscal Year 2011 Third Quarter Investment report, originally slated for the June 14, 2011 meeting but delayed by June's heavy agenda and the absence of a quorum for the July meeting. He explained the Investment Review, reviewed individual manager performance and offered detailed commentary for the data compiled by NEPC, the investment consultant for NHRS. A general investment discussion followed that included international markets, real estate, range and target options, scheduled rebalancing, cash flow experience, and the status of the revisions to the Investment Policy.

Jack Dianis, Director of Finance, presented the finance and budget update, detailing the changes that would reflect the loss of the State's cost-sharing of employer contributions. He also discussed the Staff recommendation for the allocation of the State's one-time \$3.5M contribution in 2012. He directed the Trustees to his report behind Tab 6, noting that the beginning balance was on page 3-line 46, and that the expense detail was located on page 4. He made note that because management fees were paid out quarterly, the one-twelfth budget in Line 1 did not accurately reflect the variance, but that Line 7 provided the accurate annual detail.

John Browne, Internal Auditor, discussed the Audit Tracker in detail, identifying the columns, their purpose and the progress of issues as they were discovered, reviewed, assessed, and completed. He made reference to the footnotes that provided an overall accounting of issues identified, work completed, and open items, noting that these details added context to the report and identified progress made each month.

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Following a brief discussion of the Benefit Committee's policy recommendations, on a motion by Trustee O'Brien, seconded by Trustee Morrissey, the Board unanimously voted to adopt the Pension Recoupment Policy, the Hardship Policy and the Financial Affidavit as provided to the Board following the June Board meeting.

The Chair discussed the committee structure and the manner in which items reviewed by committees were then brought forward to the full board for discussion and decisions. With the exception of two, no Board committees had independent decision-making authority apart from the Board of Trustees. She noted that the Audit Committee and the Independent Investment Committee enjoyed some statutory independence: John Browne reported to both the Executive Director and the Chair of the Audit Committee; the IIC could terminate investments within the Board's guideline.

On a motion by Trustee Morrissey, seconded by Trustee O'Brien, the meeting adjourned at 1:40 p.m.

Respectfully submitted,
Shannan Hudgins