

Note: These minutes from the August 13, 2013, regular meeting were approved and executed at the September 10, 2013 Annual Meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
August 13, 2013**

The Public Minutes

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

Trustees: Dick Gustafson, Ph.D., *Acting Chair*; Dean Crombie; Karen McDonough; Germano Martins; Cathy Provencher; Don Roy; Guy Scaife; Hershel Sosnoff; George Walker; Jack Wozmak. John Beardmore, David McCrillis, *absent*.

Staff: George Lagos, *Executive Director*; Jack Dianis, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Nancy Miller, *Director of Member Services*; Denise Call, *Director of Employer & Retiree Services*; John Browne, *Internal Auditor*; Heather Fritzky, *Controller*; Carolyn Johnson, Esq., *Hearings Examiner*; Mark Cavanaugh, Esq., *Regulatory Compliance Officer*; Nina Calkins, *PPM Manager*; Rosamond Cain, *Human Resources Manager*; Marty Karlon, *Public Information Officer*; Christine Basha, *Public Information Specialist*; and Shannan Hudgins, *Administrative Coordinator*.

Guests: David T. Kausch, *Chief Actuary*, Gabriel Roeder Smith & Company; and, Andrew Schulman, *Esq.*, Getman Schulthess & Steere

George Lagos, Executive Director, opened the August 13, 2013, meeting of the NHRS Board of Trustees by explaining that with former Chair Shapiro's departure, not only was a Board seat vacant, but also the Chair's position was vacant. Noting that the Governor had not yet named a new chair, and that the Retirement Statute offered no guidance for appointing a vice chair, he requested a motion from the floor to appoint an acting chair.

On a motion by Trustee Provencher, seconded by Trustee Wozmak, the Board unanimously voted to name Trustee Gustafson as Chair for the August 13, 2013, regular meeting. As Chair, Trustee Gustafson called the meeting to order at 9:06 a.m.

On a motion by Trustee Scaife, seconded by Trustee Provencher, the public and non-public minutes from the July 9, 2013, regular meeting of the Board of Trustees were unanimously approved.

Chair Gustafson introduced David T. Kausch, *Chief Actuary*, Gabriel Roeder Smith & Company, who was present to provide the Trustees with a comprehensive discussion of Medical Subsidy funding and rates. Mr. Kausch detailed the statutory requirements for each of the four 401(h) subaccounts and explained the differences in balances for each account. He discussed the deviation margin of 20% established for the 2014-2015 rates based on the 2011 Valuation that had been adopted to secure a minimal margin for the two accounts (State Employees and Teachers) with a zero or negative balance. The unanticipated decline of the State Employees payroll by 8%, combined with an unexpected increase in the number of Teachers receiving benefits had exacerbated the situation for those two accounts.

The ensuing discussion confirmed that while it was permissible for the 401(h) accounts to borrow from one another on a short-term basis, the long-term goal was for each account to be able to provide the benefits on a stand-alone basis. Trustees also considered the precise language of the statute in their discussions of payroll assumptions, setting a reasonable margin in new employer rates, changing demographics state wide, and the overarching question of the risk of depleting balances of the accounts. Mr. Kausch confirmed that the draft 2013 Valuation, to be presented to the Board at the October or November meeting, would contain two funding alternatives to allow the Board to decide which one would better meet the long-term goal of solvency for each account.

Chair Gustafson thanked Mr. Kausch for his presentation. He then welcomed Atty. Andrew Schulman and asked for his legal presentation to the Board.

On a motion by Trustee Martins, seconded by Trustee Walker, the Board voted to enter into non-public session under RSA 91-A:3, II(e) to discuss current legal actions in Superior and/or Supreme Court on a roll call vote, as follows:

Ayes: Trustees Gustafson, Crombie, McDonough, Martins, Provencher, Sosnoff, Scaife, Roy, Walker and Wozmak.

Nays: None.

Staff members Miller, Call, Browne, Fritzky, Johnson, Calkins, Cain, Karlon, and Basha left the meeting with all public attendees.

On a motion by Trustee Roy, seconded by Trustee Sosnoff, the Board unanimously voted to conclude the non-public session. Upon resumption of the public session, staff and public attendees returned.

Trustee Provencher provided a report of the morning's Audit Committee meeting, noting that the 2014 Internal Audit Plan had been. She acknowledged the GFOA award for the CAFR that the NHRS had been awarded, and Mr. Lagos publicly acknowledged the efforts of Heather Fritzky, Jack Dianis and their entire team. Trustee Provencher closed her remarks with a brief review of the Fiscal Year 2014 Audit Plan and requested that it be included in the September Board book.

Trustee Walker discussed the Benefits Committee meeting and its pending review of disability procedures, noting that Staff would present a draft document for review at its next meeting. He reported that 56 NHRS members and/or retirees had made inquiries about benefit changes as a result of the recent DOMA decision. He recapped the disability application that had been referred to the Committee and noted its recommendation.

On a motion by Trustee Walker, seconded by Trustee Wozmak, the Board unanimously voted to approve the Hearings Examiner's recommendation in the matter of E.H. with a mandatory review and reexamination between twelve and twenty-four months, as recommended by the Benefits Committee.

Chair Gustafson next requested the Governance Committee update, and Trustee Roy began with a brief overview of the Committee's OFAC discussion. On a motion by Trustee Roy, seconded by Trustee Scaife, the board unanimously voted to approve the OFAC Policy as recommended by the Governance Committee.

Trustee Roy discussed the Governance Manual review and the two-phase approach that had been implemented by Atty. Mark Cavanaugh. Trustee Roy noted that the afternoon's meeting would focus on Phase I revisions in which all the documents had been uniformly formatted and any time-sensitive information or material had been removed from the main document and placed in appendices. The structure would facilitate necessary vendor changes or changes in investment figures that were outside the control procedures of the manual. He closed with a status report on the investment counsel RFP that had received 13 responses, internal staff had scored the applicants, and the top five firms would be discussed at the Committee meeting following the Board meeting.

Trustee Sosnoff began the Investment report by stating that as of June 30, 2013, funds held in trust were \$6.383 billion, representing a gain of \$609 million. He reported that performance of the marketable assets for the fiscal

year was 14.8%. He further mentioned that all asset classes were up and that all marketable asset classes had exceeded their benchmarks. He stated that Fixed Income and non-US Equity portfolios were at their targets. Trustee Sosnoff offered an update of the July 19th IIC, stating that after discussions, an allocation to Aberdeen and contract renewals for Brandywine and LoomisSayles, the remainder of the meeting had been devoted to economic presentations by PIMCO, BatteryMarch and IR&M, which were well received.

Chair Gustafson delivered a brief PPCC report focused on the positive Board self-evaluation results, noting that Trustees would receive more system-related information from the internally-developed surveys of constituents. Those results would filter through to the Board as the surveys were rolled out and results were collated. He then stated that his CBA update would take place in a temporary adjournment.

On a motion by Trustee Walker, seconded by Trustee McDonough, the Board unanimously voted to temporarily adjourn the meeting to discuss collective bargaining strategy or negotiations under RSA 91-A:2, I(a).

On a motion by Trustee Martins, seconded by Trustee Walker, the Board unanimously voted to reconvene the meeting.

Trustee Provencher excused herself from the Board Meeting.

Trustee Sosnoff announced that the Legislative Committee would meet on Friday, August 23, 2013, at 10:30 a.m., to review the Preliminary NHRS 2014 Legislative Agenda as prepared by Staff. Mr. Dianis stated that the material would be available by week's end for the Committee's careful review, noting that the September Board meeting occurred in the middle of the House schedule, which would allow Staff to incorporate Committee and Board changes to the proposed agenda. Mr. Lagos explained that the preparation of a substantive legislative agenda was an effort to promote clarity in existing statutes and to address known ambiguities.

Chair Gustafson next requested operating reports, and Mr. Lagos opened with an update of his attendance at the annual NASRA meeting. He reported that the issues facing NHRS were familiar ones nationwide, that few retirement systems were fully funded, and that his colleagues had discussed the challenges of responding to legislative enactments and the litigation which typically followed. He remarked that the KPM results had improved but were still below the 95% target, and that the Process Improvement Project ("PIP") was progressing well. Mr. Lagos informed Trustees that on the heels of the Board Self-Evaluation, he would not send them a survey as he had last August, but rather would be calling each Trustee in the next week to offer an opportunity to provide feedback or suggestions. He closed his report by stating

that the Board would receive a Medical Subsidy White Paper for September that addressed the complex structure of the program.

Atty. Crutchfield reported that the recoupment action that had resulted in a lawsuit initiated by NHRS had closed. The defendant had repaid the NHRS in full and the case had been withdrawn.

In his Finance report, Mr. Dianis stated that the GFOA Certificate of Achievement for Excellence in Financial Reporting was just awarded on the NHRS Summary CAFR Report, and he thanked his staff for their diligence and fine work. He announced that the three actuarial firms that responded to the actuarial consultant RFP would be formally interviewed the afternoon of August 23rd, and he anticipated bringing a recommendation to the Board in September. He also noted that the work by constituent groups implementing the GASB changes had slowed over the summer but anticipated activity would pick up in the fall. He also stated that GASB had next on their schedule reviewing and updating the pronouncements relating to medical subsidy (OPEB). Mr. Dianis spoke to the financial statements, noting that he did not anticipate dramatic changes to the preliminary FYTD actual numbers shown. In reference to the \$525,033 in unexpended funds for Technology, he stated that the funds in this expense line would continue to be budgeted at the same level until decisions regarding PensionGold were made.

Ms. Miller and Mr. Lagos offered brief comments for IT, remarking that Mr. Zahensky had been onsite regularly and that his action plan was on target. A discussion of the Business Continuity Plan ensued, with Mr. Lagos confirming that Phase I was targeted to running payroll, both annuity and staff.

Ms. Miller opened her report with details of the Cloutier decision and the impact on the JRP, for which NHRS served as the third-party administrator. She noted that two anticipated PensionGold builds had significant issues for Member Services and her teams were working through an accelerated testing phase. She closed with a preliminary number of 24,000 members with ten or more years of service which would be impacted by the AFT pending court decision.

Ms. Call reported that DOMA changes in Retiree Services involved medical subsidies and other benefits, and she noted that increased communication efforts had been helpful. Her teams were reviewing all retirees, with a few exceptions, for their medical subsidy participation. Chair Gustafson asked whether members and retirees were able to remotely access their accounts to make changes, and she confirmed that some basic functions were available, but that website upgrades were required to empower members to control their accounts.

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Chair Gustafson requested discussion about the Consent Agenda. On a motion by Trustee Wozmak, seconded by Trustee Martins, the Board unanimously voted to approve the Consent Agenda.

Mr. Lagos reported that numbers 6 and 7 from the July Action Items list were with Committees and being resolved. He then opened a discussion of September Board Education opportunities. In assessing his NASRA experience, Mr. Lagos suggested Keith Brainard, the NASRA Research Director, could present a national perspective to the Board which would be informative, noting that he could likely attend the September member in person or by webcast. Following a brief discussion of fiduciary education, along with governance education, the Trustees indicated their interest in both fiduciary training and an national overview and charged Mr. Lagos with the final planning and preparation of the September Board Education session.

On a motion by Trustee Walker, seconded by Trustee Crombie, the meeting was adjourned at approximately 11:49 a.m.

Respectfully submitted,
Shannan Hudgins