

Note: The minutes from the November 8, 2011, regular meeting were approved and executed at the December 13, 2011, regular Meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
November 8, 2011**

Approved Public Minutes

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

Trustees: Trustees: Lisa Shapiro, Ph.D., Chair, presiding, Danny O'Brien, Vice Chair, Dean Crombie, Dick Gustafson, Ph.D. (delayed arrival), Keith Hickey, Kate McGovern, Ph.D., Brian Morrissey, Cathy Provencher, Tara Reardon, Don Roy, and Jack Wozmak.

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; Christine Basha, Public Information Specialist; John Browne, Internal Auditor; Heather Fritzky, Accounting & Finance Reporting Supervisor; Tracey Horner, Member Accounting Team Leader; Carolyn Johnson, Esq., Hearings Examiner; Marty Karlon, Public Information Officer; Kristie Kathan, Human Resources Coordinator; Cecile Merrill, Project Manager; Christine Stoddard, Retiree Services Team Leader; and Shannan Hudgins, Administrative Coordinator.

Guests: David Kausch, Randall Dziubek, and Heidi Barry, Gabriel Roeder Smith & Company; Ian Lanoff, Esq., Groom Law Group; Edward Kaplan, Esq., Sulloway and Hollis.

At the request of the Chair, Vice Chair Danny O'Brien called the regular meeting of the NHRS Board of Trustees to order at 9:09 a.m. On a motion by Trustee Reardon, seconded by Trustee Provencher, the public and non-public minutes of the October 11, 2011 regular Board meeting were approved unanimously.

On a motion by Trustee Morrissey, seconded by Trustee Wozmak, the Consent Agenda was unanimously approved with the exceptions of the Administrative Recommendations of D. Felch, M. Leyden, Mello/Hudson, L. Palermo, and W. Quigley.

The Board discussed each Administrative Recommendation individually and took the following actions:

On a motion by Trustee Reardon, seconded by Trustee McGovern, the Board unanimously voted to approve the Hearings Examiner's recommendation in the matter of Donald Felch.

On a motion by Trustee O'Brien, seconded by Trustee McGovern, the Board unanimously voted to grant the petitioner Michele Leyden the opportunity to purchase out-of-state credit.

On a motion by Trustee Wozmak, seconded by Trustee McGovern, the Board unanimously voted to table the Matter of Ronald Mello/Town of Hudson. Chair Shapiro requested the Governance Committee to review the case and bring its recommendation to the full Board.

On a motion by Trustee O'Brien, seconded by Trustee Hickey, the Board unanimously voted to waive the recoupment of \$138.72 in medical subsidy overpayment for the month of May 2011 in the matter of Louis Palermo.

Trustee O'Brien moved that the Matter of William Quigley *not* be tabled and in lieu of bringing the matter before the Board again, that Mr. Quigley be allowed to pay the member contributions of \$1,928.86 within 90 days, and if paid within the stated time frame, that NHRS Staff recoup the pension overpayment of \$19,026.70 from the Petitioner's pension benefit when he next retires over a period of thirty (30) months. However, if he does not pay the stated member contribution amount within 90 days, the pension overpayment will be recouped over a period of fifteen (15) months at retirement based upon the NHRS recoupment policy. Seconded by Trustee McGovern, the motion passed unanimously.

Trustee Reardon provided a recapitulation of the Legislative Committee meeting of November 7, 2011, which included a lengthy discussion of a defined contribution (DC) plan as presented in LSR 12-2876, the employer assessment ("spiking") estimator posted on the NHRS website, and necessary adjustments to differentiate career extra pay from such pay received in the final three years of pay, and HB 2 implementation corrections being sought through legislation.

On a motion by Trustee Reardon, seconded by Trustee McGovern, the Board unanimously accepted the intent of the Legislative Committee to request in-depth defined contribution plan analysis from the consulting actuary Gabriel Roeder Smith & Company (GRS) beyond the fiscal note analysis, describing the impact on the NHRS unfunded liability over the

26 year amortization period if the DC plan became effective as of 11-1-12, with no new members joining the NHRS defined benefit (DB) plan.

On a motion by Trustee Provencher, seconded by Trustee Hickey, the Board unanimously voted to authorize NHRS Staff to work with the consulting actuary GRS to address legislators' questions and concerns with the current employer assessment estimator as enacted by HB 462, Chapter 230 Laws of 2011.

Chair Shapiro welcomed David T. Kausch, Chief Actuary from GRS, and his colleagues Randall Dziubek and Heidi Barry, and asked them to discuss the June 30, 2011 Draft Valuation. Mr. Kausch began his remarks by stating that this valuation would be used by the Board of Trustees to determine the employer contribution rate for Fiscal Years 2014 and 2015. He noted that in addition to the results of the valuation, items to be considered by the Board were medical subsidy payments, a potential defined contribution plan, and proposed changes to the Governmental Accounting Standards Board (GASB) Standards. He then turned the presentation over to Mr. Dziubek, who discussed the particulars of the PowerPoint document included in the Board materials.

Following an extended discussion that included the commonly used funding method (entry-age normal), actuarial assumptions, statutory plan changes, the lower normal cost of new hires, as well as medical subsidy rates, Board members requested a defined contribution report from GRS that would present an analysis of what has been proposed by the NH Legislature. In particular, Chair Shapiro asked that the analysis focus on the facts and figures of a DC plan, not discuss the philosophy of creating such a plan. Additionally, she requested clarification of the specific details that should be included in a valuation.

Chair Shapiro asked that the Valuation discussion continue at the December Board meeting, with the expectation that the Board would accept the final version of the Valuation at the January 2012 meeting.

Trustee Provencher provided a review of that morning's Audit Committee meeting, noting that the Unaudited Comprehensive Annual Financial Report (CAFR) had been presented by auditors from KPMG with their findings. She stated an unqualified auditor's opinion was anticipated and would be completed in a timely manner. In keeping with prior practice, she explained that the statutory timeline for Board acceptance of the CAFR was December 1st of each year, but that the regularly scheduled Committee and Board meetings fell outside the deadline. As recommended by the Audit Committee, Trustee Provencher moved to extend the presentation of the audited financial report and resulting findings to the Audit Committee to its next meeting as permitted under

RSA 100-A:15, VI. Seconded by Trustee Morrissey, the motion passed unanimously.

Trustee Provencher reported that a date change (to December 2011) was made to Item #35 on the Audit Tracker to accommodate Staffs' and GRS's priority work with the Valuation. She also noted that Staff had been asked to evaluate the format of the Tracker to create a timelier, more user friendly document.

Following a five-minute break, on a motion by Trustee O'Brien, seconded by Trustee Hickey, 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 Hickey, seconded by Trustee Morrissey, the Board unanimously voted to reconvene the Board meeting.

In taking action on the Collective Bargaining discussion, the Chair stated she would entertain a motion that the Board adopt the tentative collective Bargaining Agreement between the SEA and the NHRS as discussed today and authorize the Executive Director to sign the contract, contingent upon modifications to Article 19.7.1. Moved by Trustee Morrissey and seconded by Trustee Reardon, the motion passed unanimously.

Chair Shapiro then asked Atty. Kaplan to summarize the results of the Union Leader vs. NHRS lawsuit and the NH Supreme Court decision that was issued November 3, 2011. In his explanation, Atty. Kaplan stated that NHRS had contested the Union Leader's Right-to-Know request for pensioners' names linked to their annuity amounts because of its continuing obligation to protect the privacy of annuity recipients. He emphasized three points in the Court's decision: The Court validated NHRS' position regarding a particular provision in the statute, finding that the statute was ambiguous and that the Court could not adopt the trial court ruling on that statute. The Court also validated NHRS' position that retirees have an interest in maintaining the privacy of their names tied to the benefit amounts they receive. However, in balancing the rights of retirees against the value to the public knowing the names of the retirees and their pension amounts, the Court found that public scrutiny rights outweighed privacy rights of retired public employees. He noted that although the Court had the right to award the Union Leader all costs, it did not do so. The requests and appropriate responses were being evaluated on a case-by-case basis with the assistance of Atty. Kaplan while adhering to the Court's decision to release the appropriate requested information.

Trustee McGovern reported on the Benefits Committee meeting of October 28, 2011, and its actions on the four cases included in the Board's materials that the Committee was assigned to review. She stated that following its deliberations, the Committee had voted unanimously to recommend that the Board approve the Hearings Examiner's recommendations for H.E., D.G., and M.B. On a motion by Trustee Wozmak, seconded by Trustee Provencher, the Board unanimously voted to approve the Committee's recommendation.

In the matter of Richard Welch, Trustee McGovern stated that the Committee recommended that the full Board permit Mr. Welch to present a legal brief or memorandum of law, not to exceed 35 pages – not including exhibits – and make an oral presentation to the full Board, not to exceed 15 minutes, at a future Board meeting in response to the Reconsideration Recommendation of the Hearings Examiner dated August 9, 2011. Moved by Trustee Morrissey and seconded by Trustee McGovern, the Chair entertained discussion of the matter which included the scheduling of Mr. Welch's presentation. Chair Shapiro emphasized the clear distinction of this case and the process issues involved, and that the Board's action did not establish a new precedent or procedure in the appeal process.

The Chair called the vote on the motion, which carried as follows:

Ayes: Trustees O'Brien, Crombie, Hickey, McGovern, Reardon, Roy, Morrissey and Provencher.

Nays: Trustees Shapiro and Wozmak.

Trustee McGovern next presented the Benefits Committee's recommendation to begin the rules promulgation process for revisions to Ret. 304. On a motion by Trustee McGovern, seconded by Trustee O'Brien, the full Board unanimously recommended that staff begin the rules promulgation process by providing an Initial Proposal on revisions to Ret. 304 for the Board's consideration.

Trustee O'Brien provided a review of the Governance Committee meeting of October 27, 2011, noting that the Committee would again gather immediately following adjournment of today's full Board meeting. The sole agenda item was the Investment Policy, and the Committee heard a history of the formation of the Independent Investment Committee (IIC), the writing of the Policy, and details of its implementation. Trustee O'Brien noted that the Policy was being reviewed with consultants Hewitt EnnisKnupp, Foster Pepper, and NEPC, and that a memorandum from Groom Law Group would be an integral part of the policy review.

Chair Shapiro asked for the report of the Interim Executive Director, Kim France, who discussed the contract for the NHRS governance consultant, Hewitt EnnisKnupp. Ms. France stated that the current contract was due to expire on December 31, 2011, and that she requested action by the Board to enter into another contract with Hewitt EnnisKnupp for a one or a two-year contract, at \$50,000 per year, or to issue a Request For Proposal (RFP) for governance consultant services. Following a discussion of its options, on a motion by Trustee Hickey, seconded by Trustee Wozmak, the Board voted to enter into a two-year extension of its governance consulting contract with Hewitt EnnisKnupp, as follows:

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

Nays: Trustees Crombie and McGovern.

Ensuing discussion concerning the RFP process, Staff was directed to create an administrative tickler to open the RFP process for governance consultant services by June 2013. Trustee Provencher questioned who would monitor the contract details with Hewitt EnnisKnupp, and Board consensus assigned the monitoring to the Governance Committee, with a quarterly status report to the full Board.

Ms. France continued her report to the Board by stating that NHRS had chosen to inform all pension recipients of the Supreme Court's recent Right-to-Know decision. A notice was on the website, an electronic notice had been sent, and postcards to all 27,000 pensioners were to be mailed later in the week. She continued with an update on annual Member Statements for members who were not yet retired, anticipating the statements would be mailed during the last week of November/first week of December.

Ms. France reported that the pending final pension benefits for State retirees who were affected by the State's action on member contributions had been processed, with special thanks to the Member Services and Employer Services Teams. She emphasized the tremendous work required of Staff to implement the components of HB 2, noting that some Staff members were fully occupied with that implementation work.

The Chair requested a legal update from Atty. Crutchfield, who reported that the hearing on the coalition lawsuit regarding recertification was scheduled for Thursday, November 17, 2011, at 10:00 a.m. He continued with a discussion of the Board's annual fiduciary insurance policy, which was due for renewal on January 15, 2012. Atty. Crutchfield reported that the RFP for the past three years has resulted in Chubb Insurance retaining the bid, but he requested Board direction

regarding bid action for the upcoming renewal. By consensus, the Board asked Atty. Crutchfield to request bids for insurance and report back to the Board at its December 13, 2011 meeting.

Chair Shapiro then asked for a finance update from Jack Dianis, Director of Finance. He discussed two schedules: the first schedule was a budget vs. actual comparison for the first quarter of FY 2012 of NHRS, Non-Investment Administrative Expenses. The second schedule was an analysis of 1st quarter administrative expenses year over year for the last three fiscal years. These expenses represented the day-to-day administrative expenses that were administered through the State of New Hampshire's accounting system. As part of the discussion, Mr. Dianis explained that the IT expense line would require further analysis to identify HB 2 implementation costs to capitalize.

Mr. Dianis discussed the unaudited CAFR and identified changes made to make the report more readable, for example, the format changes made for ease of section identification, as well as an index of the footnotes. He further explained the increase in salaries and benefits FY2011 versus FY 2010 shown in the report as reflecting the retirements of five, long-term employees whose departures included career payouts, as well as the departure of the executive director and related payout in FY2011. Mr. Dianis stated that the final CAFR would include a more extensive explanation of that item in the report.

Mr. Johansen, Director of Investments, presented a review of the Comprehensive Annual Investment Report (CAIR), detailing its compliance with the statutory requirements of the Report and its component parts. He stated that the Report had been unanimously approved by the IIC and that Board approval would be requested at the December meeting.

In his investment report, Mr. Johansen stated that the equity markets were essentially flat for this calendar year of 2011. The continued volatility of the market, combined with concerns about the European debt crisis continued to adversely affect the market. He reported that federal employment figures indicated that employers had increased their payrolls in October by 80,000 jobs, and that the unemployment rate had decreased .1% in October to 9.0%. Mr. Johansen made note that the lower unemployment rate was a result of more people entering the work force, not because discouraged people had given up looking for jobs. He referenced the portfolio performance provided in the investment materials and the overview of the upcoming Investment Committee meeting.

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Chair Shapiro stated that the only item left on the Agenda was the PPCC agenda item. On a motion by Trustee McGovern, seconded by Trustee Reardon, the Board entered into non-public session under RSA 91-A:3, II(b) to discuss the hiring of a public employee, on a roll call vote, as follows:

Ayes: Trustees Shapiro, O'Brien, Crombie, Gustafson, Hickey, McGovern, Morrissey, Provencher, Reardon, Roy, and Wozmak.

Nays: None.

On a motion by Trustee O'Brien, seconded by Trustee Roy, the Board unanimously voted to conclude the non-public session.

Moved by Trustee Hickey and seconded by Trustee Morrissey, the meeting was adjourned at approximately 3:15 p.m.

Respectfully submitted,
Shannan Hudgins