

NHRS Board of Trustees
Minutes-August 11, 2020

Note: These minutes from the August 11, 2020 Public Session were approved and executed at the September 8, 2020 Board of Trustees meeting.

**Board of Trustees
August 11, 2020
Public Minutes**

**New Hampshire Retirement System
54 Regional Drive
Concord, New Hampshire 03301**

The NHRS office was closed to the public as a result of COVID-19 and the meeting was held via video conferencing as authorized under Executive Order 2020-04. Pursuant to RSA 91-A, all votes were by roll call.

Participating: Trustees Tim Lesko, Chair, Scott Christensen, Christopher Coates, Melvin Friese, Sue Hannan, Bill Hart, Ben Jean, Maureen Kelliher, Robert Maloney, Monica Mezzapelle, Scott Myers, Donald Roy and George Walker.

Staff: George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Gerard Murphy, *Director of Finance*; Frank Clough, *Director of Information Technology*; Nancy Miller, *Director of Member Services*; Mark Cavanaugh, Esq., *Associate Counsel & Compliance Officer*; Diana Crichton, Esq., *Hearings Examiner*; Nancy Cone, *Internal Auditor*; Marty Karlon, *Director of Communications & Legislative Affairs*; Rosamond Cain, *Human Resources Manager*; Nina Calkins, *Process Improvements Manager*; Cecile Merrill, *Project Manager*; and Margaret Astles, *Executive Assistant*.

Chair Lesko called the August 11, 2020 regular meeting of the NHRS Board of Trustees to order at 10:04 a.m. Executive Director Lagos announced the protocols for the remote WebEx meeting. Having established a quorum, Chair Lesko called for a vote to approve the minutes of July 14, 2020 Board meeting. On a motion by Trustee Hart, seconded by Trustee Maloney, the Board voted to approve the minutes as presented. Motion passed.
Abstention: Ben Jean.

Trustee Kelliher provided the Audit Committee report noting that the Committee met this morning and approved the July 14, 2020 minutes. The Committee then reviewed the Microsoft Dynamic audit, noting that no issues were detected. Next, the Committee reviewed the open audit tracker issues and noted that progress is being made, with all items scheduled for completion by the end of CY 20 with the exception one issue which will be addressed with the implementation of PGV3. The remote audit work by Plante Moran is on schedule and they are due to continue through October. Steps are being taken to arrange an external audit of the remedial actions taken in connection with the data security plan over the past two years.

Trustee Roy gave the Governance Committee report, noting that the Committee last met on July 14, and approved the minutes of June 9. Next, the Committee discussed the actuarial consulting services RFP, with Finance Director Murphy noting that the decision to issue an RFP is not a reflection of any dissatisfaction with the relationship that NHRS has had with GRS but rather to follow best practices in the procurement of these services. The Governance Committee unanimously voted to recommend the draft RFP to the Board for approval. On a motion by Trustee Jean, seconded by Trustee Hannan, the Board voted unanimously to accept the recommendation of the Governance Committee that the Board approve the RFP for actuarial consulting services, as presented.

Trustee Roy noted that Executive Director Lagos, in conjunction with his open door policy, heard concerns from an employee regarding racial sensitivity and subconscious and conscious bias issues. After meeting internally with HR and Management, it was decided that NHRS would incorporate racial sensitivity and bias issues into our all-staff/HR training program.

Trustee Kelliher reported on the IIC meeting of July 24, noting that the minutes were approved from the June meeting. Then the Committee continued discussion of the effects of COVID-19 on cash flow and asset allocation. Representatives from NEPC gave a presentation on active and passive management with a focus on large cap domestic equity. The Committee continued the discussion with regard to investment manager LSV Asset Management and unanimously agreed to terminate the U.S. large-cap equity-investment management agreement with LSV and transfer the assets to the S&P 500 index account managed by BlackRock with the assistance of a transition manager. Presentations were also heard from Alliance Bernstein on the global economy and BlackRock on opportunities and risks with investing in China.

Investment Director Johansen began by reporting on the system's preliminary performance through June 30. He noted that NHRS is up .1% for the fiscal year, but he cautioned the Board that the .1% does not include the 4th quarter results for real estate, which hurt the portfolio slightly, or private equity and private debt, which will likely have a positive effect on performance. The books will be held open from June 30 through late September when most, if not all, real estate, private equity and private debt partnerships will report their net asset values, thereby giving NHRS the final June 30 performance results.

Mr. Johansen reported that 3 and 5 year performance was at 4.8% and 5.7%, below the benchmark primarily because of portfolio diversification corresponding to the relative outperformance of the S&P 500. This is the first time that Mr. Johansen could recall that the 3 and 5 years are not going to be in the top half among peers. He then noted that the transition manager for the transition from LSV to the S&P 500 index has been selected. Mr. Johansen then gave the Board an update on the investment consultant RFP, noting that six proposals were received, and four are being interviewed. Next week the Committee will discuss the proposals, bringing two semi-finalists to the September IIC meeting and the IIC recommendation will come before the Board for approval in October.

Chair Lesko reported that Trustee Myers is currently experiencing a conflict affecting his remote participation and deferred his Legislative Committee report to later in the meeting.

Trustee Walker reported that the Benefits Committee had not met since June 30. At that meeting the Committee voted to recommend to the full Board that it approve the two waiver requests for individuals who were mistakenly granted service credit averaging 30-35 hours

per week, for varying periods of time. Associate Counsel Cavanaugh gave a brief description of the events surrounding this situation, noting that we continue to educate the employers and offer education and training sessions so that this is not a regular occurrence. On a motion by Trustee Hart, seconded by Trustee Maloney, the Board voted unanimously to accept the recommendation of the Benefits Committee that the Board waive the minimum participation standards for both members, as discussed.

A Benefits Committee meeting is scheduled for August 18 to address the Committee Charter, the IME Review Policy, and consideration of two pending settlement offers.

Trustee Hart reported that the PPCC met on July 27 to discuss the Executive Director's compensation and again on August 7 to discuss internal staffing changes that were under consideration. Mr. Hart asked that the Board move to non-public session to discuss several personnel related matters. On a motion by Trustee Coates, seconded by Trustee Roy, the Board voted unanimously to enter into non-public session under RSA 91-A:3 II(c).

On a motion by Trustee Maloney, seconded by Trustee Hart, the Board voted unanimously to conclude the non-public session.

On a motion by Trustee Hart, seconded by Trustee Maloney, the Board voted unanimously to approve the recommendation of the PPCC with regard to the Executive Director's compensation.

Mr. Marty Karlon presented the Legislative Committee report, noting that since the last Board meeting, the two remaining omnibus bills containing items relative to NHRS, HB 1234 and HB 1494, have been vetoed by Governor Sununu. The House will be back in session in September to take up the Governor's vetoes. Neither HB 1234, requiring an investment fee quarterly report, nor HB 1494, requiring elimination of the retirement system offset for worker's comp benefits applicable to Group I accidental death benefit annuities passed with a veto-proof majority, which makes it less likely the vetoes will be overridden.

Trustee Myers rejoined the meeting remotely.

David Kausch of GRS presented a brief overview of the FY 2019 Valuation Report. The June 30, 2019 valuation plan experience determines rates for the Board's consideration for the 2022-2023 biennium. Mr. Kausch reviewed the proposed employer contribution rates for state employers, and political subdivisions for each member class, as well as the medical subsidy rates. Changes reflected in the report include revised actuarial assumptions adopted as a part of the experience study, a COLA of 1.5% on the first \$50,000 of annual pension, and a change in the funding method to increase the margin on the teacher's medical subsidy from 20% to 50%. These changes drove the increases in employer contributions in terms of percent of payroll. Employees overall went up 2.87%, teachers increased by 3.49%, police by 5.09%, and fire by 3.35%. In the aggregate, as a percentage compared to current rates, the overall increase is 20%. Mr. Lagos noted that these proposed increases would be considered to be substantial in terms of the impact on employers.

On a motion by Trustee Roy, seconded by Trustee Hannan, the Board unanimously voted to accept the Fiscal Year 2019 Valuation Report, as presented today.

Executive Director Lagos began his operating report by noting that all staff presenters would be reporting on the results of their FY 2020 action plans. Mr. Lagos then gave his Executive Operating Report, noting that he and Mr. Karlon have initiated employer outreach efforts with respect to the Board's contribution increases associated with the Board's recent action to revise various actuarial assumptions. Presentations have been made to NHMA and NHRSC, and information on the experience study and draft valuation has also been provided to the Governor's office, the Association of Municipal Managers, the Association of Counties, the Association of Police Chiefs, the School Board Association and Association of School Administrators. The Valuation Report and an FAQ on employer contribution rates will be posted to the website following today's Board meeting.

Mr. Lagos then noted that NHRS has concluded collective bargaining negotiations with the SEA on the contract that expired June 30, 2019, and the documents have been executed by the parties. Mr. Lagos reported that this month's KMP score was 93.18% and although this is below the benchmark, we are still maintaining a rolling 12 month average exceeding the 95.00% target. Mr. Lagos then reported on the Contact Center initiative, noting that phase II implementation is underway. Mr. Karlon is spearheading the project and organizing internal operations with Powerhouse Consulting, and staff. The target date for completion is December 2020. Lastly, he noted that we have scheduled a videoconference meeting with Fusion Cell, a company that provides COVID-19 readiness assessments who assists employers with preparing for the re-opening of their offices. This company is comprised of former military members with a wide-range of expertise. Mr. Lagos noted that it is important for our staff's safety and their comfort level in returning to the workplace to engage in this assessment.

On a motion by Trustee Coates, seconded by Trustee Hart, the Board unanimously voted to approve the procurement of a sole source contract with Fusion Cell, subject to contract and legal review.

Trustee Christensen asked if there has been an inordinate amount of teacher retirement applications due to COVID-19, and what would the implications be to NHRS. Mr. Lagos replied that to date, it does not appear to be a factor. He noted that the NHRS statute requires that those who are planning retirement must submit their applications no less than 30 days prior to their retirement date, giving NHRS plenty of notice. Mr. Johansen speculated that from an investment perspective it might have an impact on cash flow depending if all those who retired were replaced at lower salaries. He further noted that we are managing cash on a 90-day basis we currently have more than enough cash on hand. Member Services Director Miller added that the Member Benefits team is having many conversations with teachers regarding how the retirement process works, but as the press has reported, teachers are waiting to see what the school opening plans are. Mr. Karlon concurred, noting that at some of the webinars done this summer, teachers are waiting for the outcome on opening from their schools and recent news reports have indicated that many districts would be going to remote or hybrid learning in the fall.

Project Manager Merrill gave her PGV3 project status report beginning with Deliverable 2, which is 82% complete. The focus is currently on Deliverable 2 training and testing that starts next week. Regarding data conversion, of the 7 issues identified 4 have been resolved. Of the 15 issues that have been reopened on a more recent run, 12 have been resolved and 8 additional issues were added. We are working with our PGV2 team in regard to fixing missing employer records and some records that effect interest. She noted that staff is putting a working group together to talk about irregular pay periods, as these non-

regular pay cycles cause issues with data conversion. Lastly, she noted that the PGV3 team is starting to look at the out of scope requirements for Deliverable 3, having to do with calculations.

Chief Legal Counsel Crutchfield's Legal Report began with a GASB audit update, noting that of the 22 audits to be submitted to Plante Moran, there are 8 remaining to meet the August 21 deadline. Mr. Crutchfield then highlighted the FY 20 action plan results, including integration of data security wording into all vendor contracts.

Director of Finance Murphy reported that the preliminary June net position was \$9.201 billion, noting that NHRS is still in the process of closing the books for FY 20, and awaiting the June numbers from our alternative investments. The final numbers will be presented in the CAFR. June cash flows were as expected with a slight increase in contributions attributable to the start of the teacher's balloon payments. The final budget-to-actual report for FY 20 shows our spending below budget in each of the major categories. He then gave the Board a final update on the FY 20 Action plan, noting that all but 3 actions were completed. QuickPay has been implemented, however employer adoption has not yet reached the 80% goal. He noted that an action in the FY 21 plan to eliminate the lockbox, which, by design, will create an increase in the use of ACH payments. He reported that the PGV3 employer working group would begin meeting again once the Deliverable 2 user acceptance testing is completed during FY 21. He further reported that all NHRS files previously stored at Capital Records Management have been reviewed and either destroyed or held internally for imaging. The rest of the NHRS files archived at the State are on hold until onsite storage options can be finalized, with the review of those files to continue in the FY 21 action plan.

Mr. Murphy then addressed the preliminary FY 22-23 NHRS Statutory administrative budget explaining that this two-year proposal of \$24.4 million is approximately \$40,000 more than the adopted budget for FY 21 or a 0.2% increase. The statutory administrative budget is one of the four components of the Trust Fund Budget, and the other three components consist of internal and external investment expenses, and third party actuarial, legal insurance, and audit expenses. The statutory administrative budget is approved every two years per the NHRS statute. Overall, this budget proposal represents an increase of 1.0% in FY 22, as compared to the adopted budget for FY 21. The change in FY 23 is projected to decrease by 3.0% against the FY 22 budget proposal.

The PGV3 project costs represents the biggest impact on the year-over-year change. This budget proposes a decrease, as compared to the prior year budget, of 5.2% in the first year and 24.6% in the second year. These decreases are driven by the project payment schedule tied to project deliverables and by the fact that actual salary and benefit costs for the project funded 6 staff positions came in at less than was originally projected during the FY 20-21 budget process. These decreases were offset by increases in other areas of the budget, as compared to the prior year budget, of 2.8% in the first year and 2.9% in the second year, resulting in a relatively flat budget overall. Mr. Murphy noted that the final FY 22-23 statutory administrative budget will be provided to the Board for review and approval at the Sept. 8 meeting and invited Trustees to contact him directly should they have any additional questions before then.

Director of IT Frank Clough reported that the Secureworks Migration was completed on June 26 and Tyler Technology's service was discontinued. He noted that IT is continuing to provide staff with additional tools to work efficiently from home. The upgrade for the Cisco

softphone and the Cisco Jabber softphone is complete and will provide additional benefits to staff while working remotely. Mr. Clough then reported that the monthly security awareness testing for staff was completed. He noted that IT had missed KPMs due to a My Account server outage, which has been resolved. He then gave the Board a brief overview of upcoming plans and projections such as getting quotes to upgrade the alarm system, continuing with vulnerability and penetration testing, and working to replace three Cisco firewalls that are nearing end of life.

Director of Member Services Miller reported that her team is undertaking a final review of the COLA script and retiree communication plans are going into place later in the month. Preparation for Deliverable 2 testing and identifying staff participants were areas of focus throughout the month. Remote work schedules continue and messaging was provided to staff to assist in responding to member questions regarding office re-opening. Similar messaging was developed for email communications. Ms. Miller continued by noting that July payrolls were completed on time, with all areas carrying out necessary activities from record review to processing over 800 retiree insurance deduction changes.

There has been a continued decline in member one-on-one meetings with Benefit Specialists during this period of remote work, with more members utilizing electronic methods of submitting applications and related forms. Member Services and IT are awaiting receipt of the updated benefit option factors from GRS and the next step for Member Services will be building out the testing schedule for those factors. Lastly, Ms. Miller reported on upcoming plans and projects, noting that member statements are targeted for distribution in September, D2 UAT is set to start in August, and option factor testing is being targeted to begin in September. Ms. Miller then reviewed her completed FY 20 Action plan.

Trustee Lesko called for a motion to accept the Consent Agenda, as presented. On a motion by Trustee Hannan, seconded by Trustee Jean, the Board unanimously approved the Consent Agenda, as presented.

There were no trustee travel requests submitted.

Action items from the July 14, 2020 Board meeting have either been completed or are progressing as expected.

Chair Lesko addressed the Board Checkpoint discussion, indicating that Trustee George Walker was retiring and that this is his last meeting. He thanked Trustee Walker for his more than eight years of service to the Board, as well as his thirty-three years of service to his community as a member of the Nashua Fire Department. He noted that it has been an honor to serve with Mr. Walker.

Messrs. Lagos and Crutchfield noted that Mr. Walker has been an exemplary Trustee since he arrived at NHRS. They commented that he represents the type of Trustee that the System hopes to have in terms of engagement, interest, willingness to serve, attendance, and in particular, his ability to handle the issues and challenges as Chair of the Benefits Committee.

Mr. Walker remarked that he thoroughly enjoyed his eight years as a Trustee and the involvement with NHRS issues. He noted that the Board has continuously changed and he

has gotten to know great people who have put their heart and soul into the role of Trustee and the fiduciary duty they are responsible for. He expressed pride for the work that he gave as a Trustee and appreciation for the opportunity to work with his fellow Trustees.

With no further business to be discussed, on a motion by Trustee Hart, seconded by Trustee Roy, the Board unanimously voted to adjourn the meeting.

Respectfully submitted,

Margaret M. Astles
Executive Assistant