

Note: These minutes from the December 10, 2019 Public Session were approved and executed at the January 14, 2020 meeting of the Board of Trustees.

**Board of Trustees
December 10, 2019
Public Minutes**

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

Present: Trustees Richard Gustafson, Chairman; Bill Dwyer, Melvin Friese, Sue Hannan, Bill Hart, Ben Jean, Maureen Kelliher, Tim Lesko, Bob Maloney, Scott Myers, Don Roy, and George Walker. *Absent:* Trustee Christopher Coates.

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

Chair Gustafson called the December 10, 2019 regular meeting of the NHRS Board of Trustees to order at 10:30 a.m. Having established a quorum, Chair Gustafson called for a motion on the November 12, 2019 meeting minutes. On a motion by Trustee Roy, seconded by Trustee Hannan, the Board unanimously voted to approve the public minutes of the November 12, 2019 meeting, as presented.

Trustee Dwyer presented a report on the completed FY 2019 CAFR, noting that our external auditor, Plante Moran, did generate an unmodified opinion, which indicates the desired outcome that the financial statements fairly and accurately represent the financial condition and operations of the Retirement System. Trustee Dwyer then advised that Plante Moran had presented its Report on Internal Control over Financial Reporting, with a finding of a Significant Deficiency in terms of controls and communications related to the census data that NHRS provides to the NHRS actuary in order to determine the accrued pension liabilities associated with vested deferred members. The Pension Gold data extract for this demographic group applies a discount to the retirement benefit on the assumption that each member elects early retirement once eligible, rather than awaiting normal retirement age to begin receiving a pension benefit. As a result, the total pension liability was understated for approximately 1,200 of the 2,400 deferred vested members by an estimated \$15 million, representing 0.3 percent of the net pension liability or approximately 0.1 percent of total pension liabilities. Both parties agreed that this is an immaterial amount so no adjusting entry was necessary and management is addressing this deficiency. Plante Moran expressed significant satisfaction with the work of the Retirement System, speaking highly of the collaboration and communication that is occurring between Plante Moran, NHRS management, the Audit Committee, and NHRS staff.

Director of Finance Gerard Murphy began his presentation on the Comprehensive Annual Financial Report (CAFR) by thanking Assistant Director of Finance & Controller Heather Fritzky and the Finance staff for their hard work on the FY 2019 CAFR, and he expressed gratitude for Plante Moran's thoroughness and professionalism.

Mr. Murphy provided the Board with an overview of the CAFR, noting that it is a financial snapshot of the Retirement System as of 6/30/19. He commented on the 5.7% return on investments for FY 2019, the net position at the close of the fiscal year of \$9,207.6 billion, which was an increase of approximately \$333.4 million over the prior fiscal year, and an all-time high for the plan. Mr. Murphy also noted that at 6/30/19, the statutory funded ratio of the pension plan was 64.8%, up from 63.6% last year. On a motion by Trustee Hart, seconded by Trustee Jean, the Board unanimously voted to accept the recommendation of the Audit Committee to approve the Comprehensive Annual Financial Report for Fiscal Year 2019.

Trustee Roy reported that the Governance Committee, last met on December 6. He noted that the Committee unanimously voted to recommend to the full Board that it approve the annual revisions to the Governance Manual with staff recommending the removal of certain operational and administrative-related policies, and to only include those Board policies related to plan governance.

At the meeting, Mr. Murphy reviewed staff's evaluation of responses to the commercial banking services RFP. The Committee unanimously voted to recommend to the full Board that it select Citizens Bank to provide commercial banking services, online payment services, and payroll-processing services as presented, subject to contract negotiations. The decision was based on staff's assessment of value, content of commercial banking products, and services offered, and historical satisfaction with the quality and timeliness of the bank's service over time. On a motion by Trustee Roy, seconded by Trustee Myers, the Board unanimously voted to accept the recommendation of the Governance Committee that the Board select Citizens Bank for commercial banking services, subject to successful contractual negotiations.

Chief Legal Counsel Tim Crutchfield then gave an update on the renewal of fiduciary insurance coverage, noting that NHRS received confirmation from its insurance broker that, in accordance with the two-year rate lock, which was negotiated last year, the coverage had been renewed with the same terms, conditions and pricing with Hudson Insurance, as of January 15, 2020.

The Board was then provided an update on paperless Board meetings and the electronic Board book by Trustees Lesko and Maloney, who volunteered to test the pilot program. Trustee Lesko commented that he was very pleased with the iPad, the software and its features, noting it is very intuitive to use, in a very secure environment. Trustee Maloney commented that the iPad is very easy to use, the screen was very large and that the Board materials are easily found. Mr. Lagos noted that the Board will be given an update at the next meeting on the timeline for going live with the electronic Board books for all Trustees. Chair Gustafson thanked Trustees Lesko and Maloney for taking on the task of testing the pilot program.

Trustee Maureen Kelliher reported that the Independent Investment Committee (IIC) last met on November 22, 2019. The IIC approved its 2020 meeting schedule. The Committee then voted to renew the Investment Management Agreement with core fixed income manager IR&M through October 31, 2021. Next, the IIC discussed Commission Sharing

Agreements, which will be an ongoing topic for the Committee. The IIC reviewed and unanimously approved its revised Charter. The Committee discussed and unanimously approved the Comprehensive Annual Investment Report (CAIR) for FY 2019 for submission for approval to the Board today. Lastly, NEPC presented a very comprehensive educational overview of Private Markets Commitments and exposure.

Director of Investments Larry Johansen suggested that the Board pay particular attention to three sections in the CAIR for fiscal year ending 6/30/19. The transmittal letter summarizes the activities of the IIC for the year; the NEPC letter provides an overview of the investment program, and; the letter from GRS, which is a requirement of RSA 100-A, offers their opinion that our assumed rate of return, currently 7.25%, is a reasonable assumption for NHRS to use. On a motion by Trustee Roy, seconded by Trustee Hart, the Board unanimously voted to approve and accept the CAIR for FY 2019, as prepared and approved by the IIC.

Lastly, Trustee Kelliher added that market conditions are good as we come to the end of the year, even with the tumultuous trade negotiations in the news. She noted that some of the country's last economic releases have been very positive, particular last week's jobs report, and as we move into 2020, there is no recession in sight.

Mr. Johansen invited the Board members to attend the IIC meeting next week, as the IIC will have the semi-annual review of the real estate portfolio, the annual review of private equity private-debt portfolio, and the investment pacing will be set for commitments in 2020. Looking toward January 2020, NEPC will be presenting its capital market assumptions, which are likely to be less optimistic than in 2018.

Trustee Myers reported that the Legislative Committee did not meet last month, but noted that the NHRS-related 2020 LSRs in the Board packet are the most recent. A Legislative Committee meeting will be scheduled for early January. Public Information Officer Marty Karlon updated the Board by sending them the recent tracker which included ten 2020 NHRS-related LSRs that now have bill numbers assigned to them so their text is now available.

Trustee Walker reported that the Benefits Committee did not meet this month, but the Committee has two issues before the Board today. Mr. Walker indicated that on November 8, 2019, the Committee unanimously voted to recommend to the Board that it adopt a proposed revision to the Recoupment Policy with respect to the administration of medical subsidy benefits for State employees. On a motion by Trustee Roy, seconded by Trustee Lesko, the Board unanimously voted to adopt the proposed revisions to the Recoupment Policy, as presented.

Secondly, Trustee Walker reported that at the same meeting, the Committee considered the request from the Department of Corrections (DOC) regarding the reclassification of 52 positions from Group I to Group II pursuant to recently passed HB 116, and voted unanimously to recommend that the Board approve the reclassification for all 52 positions. On a motion by Trustee Roy, seconded by Trustee Myers, the Board voted to approve the prospective reclassification of all 52 DOC positions pursuant to HB 116, effective upon payroll implementation from the Department of Administrative Services (DAS), as presented.

A friendly amendment was offered by Trustee Walker, seconded by Trustee Dwyer, to clarify that the reclassification change will take effect in the month of January 2020, upon receipt

of the necessary enrollment forms from the DOC and the proper contribution deductions from the DAS.

Director of Member Services Nancy Miller added that in order to ensure that a full month's service credit is applied for all of the individuals changing their status, enrollment forms should indicate an effective date of January 3, 2020 and be submitted to NHRS as soon as possible.

Chair Gustafson called for a vote on the main motion and the friendly amendment with the Board voting unanimously in favor, with the exception of an abstention by Trustee Jean.

Trustee Hart reported on the activities of the Personnel Performance and Compensation Committee, noting that it met on December 2, 2019, and received an update from HR Manager Rosamond Cain on the Management Coaching program, which is going well. The Committee reviewed the process for the annual evaluation of the Executive Director, and all Trustees will be provided with the performance appraisal at the January 13 meeting, to be returned to the Executive Assistant by January 24. He noted that this performance evaluation would not be a compensation review, as that will be done in June. After adjournment of the meeting, the Committee members reviewed the status of the CBA negotiations. A fact-finding session was held on December 4 and the report is anticipated in mid to late January.

Executive Director George Lagos reported that the Key Performance results once again exceeded the 95.00% target. He then reported on Operations, noting that we have exchanged memoranda with DAS and the AG's office with respect to our respective views on how medical subsidy should be applied to Medicare-eligible state retirees who are required to contribute to the cost of their retiree medical insurance coverage. NHRS is of the opinion that this issue would be best dealt with through clarifying legislation.

Project Manager Cecile Merrill gave an update on the status of the PGM3 project, noting that LRS will be on site next week to review in-scope requirements for Deliverable 2 (Employer Reporting). LRS has provided estimates with respect to nine change requests for out-of-scope requirements. If all are approved, 5 to 6 weeks would be added to the project timeline at a cost of approximately \$177,000. Executive Director Lagos and Ms. Merrill will be meeting with the teams this week to make sure these are requirements that are, in fact, still desired and necessary. LRS has added 7 new data conversion issues to the 71 that have already been identified, and of which 42 have been resolved. Lastly, she noted that User Acceptance Testing for Deliverable 1 is now 97% complete.

Chair Gustafson called for the Finance Report to be taken out of order to accommodate the GRS recommendation, which was on the agenda for discussion.

David Kausch, of GRS Retirement Consulting, called into the meeting to review his previously provided written recommendation with regard to initiating an experience study in conjunction with the FY 2019 Actuarial Valuation. He explained that the statute requires an experience study at least once every five years, meaning that the next experience study would have to be done no later than June 30, 2020. Rate-setting valuations occur every two years in odd years. If the experience study is performed on the current five-year schedule, the impact of the experience study through 2020 would not be reflected until the June 30, 2021 rate-setting valuation, six years after the last assumption change was reflected. GRS suggested that the experience study be undertaken in conjunction with the June 30, 2019 rate-setting valuation, so that updated assumptions could be adopted by the

Board four years after the last experience study and considered in the September 2020 setting of employer contribution rates.

Mr. Lagos noted that because we did not originally schedule this experience study, and if the Board decides to adopt this proposal, the motion should include that the experience study be subject to contract negotiations.

After discussion, on a motion by Trustee Dwyer, seconded by Trustee Hart, the Board unanimously voted to engage GRS to initiate an actuarial experience study for the four year period ending with the FY 2019 Actuarial Valuation, in accordance with the provisions of RSA 100-A:14, IX, subject to successful contract negotiations.

Mr. Murphy reported that as of October, NHRS' net position is still above \$9.2 billion. He noted that under FY 2019 Budget v. Actual, the negative variances represented timing issues, including a PensionGold licensing fee of \$850,000, which was paid in October, and a substantial payment to the external auditors in the first half of the fiscal year. Lastly, he mentioned that NHRS *Quickpay*, the online payment option offered to employers, seems to be going well, with 35 employers now using this option.

Chief Legal Counsel Tim Crutchfield reporting for Legal, noted that an administrative appeal filed last month with the NH Supreme Court regarding a restoration of service matter and subsequent pension recoupment has yet to be accepted or denied by the Court.

Mr. Crutchfield then reported that the deadline for responses to the RFP for local NH legal counsel is December 13, and the Governance Committee will be acting on staff's recommendation following the review of the responses. Lastly, under RSA 15-A, it is that time of year when Trustees are required to file their Statement of Financial Interests with the Secretary of State's Office. Mr. Crutchfield noted that the legal team is available to assist anyone in filing the statement.

Director of IT Frank Clough reported on the recent results from penetration testing, commenting that of the 25 findings, there were no successful exploits. Although some of the findings were technically considered to be critical, they did not constitute any significant risk and will be remediated by December 31, 2019. Mr. Clough added that NHRS received positive feedback regarding its infrastructure and risk management from Blue Rhino, the testing company, and that they would do the penetration testing again, to make sure that all findings have been addressed. Mr. Clough reported that NHRS has signed a contract for the implementation of multifactor authentication and that IT is reviewing recommendations received with respect to an upgrade of the telephone system hardware and software as it is coming to end-of-life.

Director of Member Services Nancy Miller reported that a large number of her staff has participated in the User Acceptance Testing. While testing was going on, staff was also sitting in on PGV3 Design 2 (employer reporting) conversations. Training continues for a large number of new Member Services employees.

On a motion by Trustee Walker, seconded by Trustee Hannan, the Board unanimously voted to approve the Consent Agenda, as presented.

A travel request was submitted by Trustee Jean to attend an educational program at the New Trustees Institute for Level 1: Core Concepts, in February. On a motion by Trustee

Roy, seconded by Trustee Lesko, the Board voted to approve the travel request for Trustee Jean, as presented. Trustee Jean abstained.

Mr. Lagos reported that the Action Items from the November 12, 2019 meeting were either in process or complete.

Mr. Lagos mentioned that the Actuarial Calendar that was developed in the fall of 2019 will be updated to take today's vote on the timing of the experience study into consideration. The draft calendar will be ready for review at the January 2020 meeting.

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

Respectfully submitted,

Margaret M. Astles, Executive Assistant