

NHRS Board of Trustees
Minutes-February 11, 2020

Note: These minutes from the February 11, 2020 Public Session were approved and executed at the March 10, 2020 Board of Trustees meeting.

**Board of Trustees
February 11, 2020
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, Tim Lesko, Scott Myers, and George Walker. *Telephonically present:* Trustee Christopher Coates.

Absent: Trustees Ben Jean, Maureen Kelliher, Robert Maloney, and Donald Roy.

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*; and Margaret Astles, *Executive Assistant*.

Chair Gustafson called the February 11, 2020 regular meeting of the NHRS Board of Trustees to order at 10:00 a.m. Having established a quorum, Chair Gustafson called for a motion on the January 14, 2020 meeting minutes. On a motion by Trustee Myers, seconded by Trustee Walker, the Board unanimously voted to approve the January 14, 2020 minutes, as presented, by roll call vote.

Trustee Dwyer presented the Audit Committee report, recapping that morning's meeting. He reviewed the status of the Audit Tracker, noting that February began with six audit issues, which remained open from the previous month.

Mr. Dwyer then turned the Board's attention to the 2020 Internal Audit Plan, noting that the internal auditor is currently reviewing the employer penalty process.

Mr. Dwyer reported that significant progress had been made on the data security remediation project, with only seven items remaining. He commented on the recently concluded CAFR audit and progress in addressing recommendations from Plante Moran for improving efficiencies and strengthening internal controls.

Lastly, Mr. Dwyer reported that the Audit Committee had reviewed, discussed and voted on the GRS recommendation to revise the Actuarial Funding Policy so as to require actuarial experience studies every four years. This change would ensure that the experience studies would be conducted in conjunction with every other rate-setting actuarial valuation, assuring that any changes with respect to assumptions would be taken into consideration in the rate setting process on a timely basis. This revision was in compliance with RSA

100-A:14, IX, which requires an investigation into actuarial experience at least every five years. He noted that he anticipated that the Committee's recommendation would come to the Board at the March meeting, in conjunction with a similar recommendation from the Governance Committee.

Trustee Hannan provided the Governance Committee report in the absence of Trustee Roy. The Committee met on January 14th and, after considering the input and recommendations from staff regarding the RFP for NH Legal counsel, the Committee voted to recommend to the full Board that it authorize staff to enter into agreements with the incumbent attorneys for administrative matters, for labor and employment matters, and for litigation matters, subject to successful engagement negotiations.

On a motion by Trustee Hannan, seconded by Trustee Hart, the Board unanimously voted to accept the recommendation of the Governance Committee that the Board authorize staff to enter into agreements with Attorney Peter Foley for administrative matters, the Sulloway & Hollis firm for labor and employment matters, and the McLane, Middleton firm for litigation matters, subject to successful engagement negotiations, by roll call vote.

Executive Director Lagos reported on the progress made toward paperless Board meetings, noting that the goal is to have the Board outfitted with the iPads and ready to go live for the March 10, 2020 Board meeting. Mr. Lagos asked that those Trustees who had not yet received their iPads, to please schedule an orientation session with IT, within the next two weeks, if possible.

Director of Investments Larry Johansen reported that the IIC last met on January 24, 2020. Tim McCusker, CIO of NEPC, presented NEPC's capital market assumptions for 2020, as part of the IIC's evaluation of NHRS' current assumed rate of return. The February IIC meeting will host three asset management firms presenting their capital market assumptions, and at the April meeting, the IIC will discuss all of the information presented in order to develop a recommendation on the assumed rate of return to the Board. In March, one or more asset management firms will also present their capital market assumptions to the Board.

Mr. Johansen then reported that the last jobs report was very favorable with 225,000 jobs added when only 165,000 were expected. The unemployment rate increased slightly to 3.6% from 3.5%, due to the influx of people entering the job market. Wages increased 3.1% as opposed to the expectation of 3.0% from the prior year, and the US economy continues to grow, although slowly. Fiscal year-to-date performance is 5.1%, which includes only one quarter of the private market results. For calendar year 2019, period performance was very strong at 16.1%, three years at 9.5% and five years at 7.4%. All asset classes are very close to target. He noted that as of 12/31/19, the total fund market value was \$9.5 billion.

Mr. Johansen then turned the Board's attention to the 2019 Proxy Voting Summary. He noted that the Board has adopted a formal Proxy Voting Policy reflecting three objectives: to protect the System's rights; to promote responsible corporate policies and activities; and, to enhance long-term value. Of the votes cast during 2019, 100% of the votes were compliant with the System's Proxy Voting Policy.

Trustee Myers reported on the Legislative Committee, noting that the Committee has not met since the last Board meeting. He highlighted areas of importance on the Legislative Tracker as of January 31, 2020, noting that HB 1204, HB 1447, and HB 1604 have been deemed inexpedient to legislate (ITL). He then focused on several House bills that have

moved out of committee: HB 1205, linking the recalculation of a Group I retiree's annuity to his or her full retirement age under the federal Social Security system, adding approximately \$37 million to the unfunded liability; and HB 1341 that changes the application of 2011 amendments to certain Group II retirement system provisions for Group II members who are in vested status prior to July 1, 2021, adding \$142 million to the unfunded liability. HB 1341 was amended to have the State pick up this cost rather than the employers. The other bill to move out of committee is SB 543, allowing members with at least 10 years of Group II service hired for certain management positions with the state Dept. of Corrections to continue to be classified as Group II members.

Public Information Officer Marty Karlon reported that SB 637 attempts to amend NHRS' statutory provisions regarding the ability to adjust its records. This Senate bill was opposed by the Board on fiduciary grounds at the January 2020 Board meeting. Mr. Karlon testified to the bill at a public hearing on January 22, 2020. Currently, the bill remains with the Senate ED&A Committee, and Mr. Karlon is keeping close watch as to what will happen next.

Trustee Walker reporting for the Benefits Committee, noted that the Committee last met on January 28, 2020. Concerning the DOC reclassifications, staff received all of the appropriate paperwork for all 38 positions that are currently filled. Staff also received oral confirmation from the Dept. of Administrative Services that the appropriate Group II contribution rates have been applied to those positions. Mr. Crutchfield added that NHRS would not be receiving the January contributions until the second half of February.

Trustee Walker explained that staff reported on one of last year's amendments to the NHRS administrative rules impacting Gainful Occupation (GO) reporting by eliminating the reporting requirement for disability recipients who report no income for the prior five years. Staff explained to the Committee that the GO filings have now been processed in PensionGold for five years and information is available to determine those recipients that are eligible for a waiver this year, which will reduce the number of filings by approximately two-thirds.

Trustee Hart, reporting for the Personnel Performance and Compensation Committee, requested a motion to enter into non-public session. On a motion by Trustee Lesko, seconded by Trustee Hart, the Board unanimously voted to enter into non-public session under RSA 91-A:3, II(c), to discuss persons other than members of this public body, on a roll call vote.

On a motion by Trustee Walker, seconded by Trustee Myers, the Board unanimously voted to conclude the non-public session, by roll call vote. No action was taken during the non-public session.

On a motion by Trustee Lesko, seconded by Trustee Friese, the Board unanimously voted to temporarily adjourn the meeting for the purpose of discussing collective bargaining strategy or negotiations under RSA 91-1:2, I(a), by roll call vote.

Upon the conclusion of the collective bargaining strategy session, on a motion by Trustee Hart, seconded by Trustee Hannan, the Board unanimously voted to reconvene the Board meeting, by roll call vote.

Chair Gustafson introduced Tim McCusker, CIO, and Kevin Leonard, Partner and Lead Consultant of NEPC, who presented the NEPC Capital Markets Expectations report to the

Board. NEPC's presentation is the first of several that the Board will hear on the rate of return and other assumptions that need to be considered for the pending experience study. Using our current asset allocation, NEPC set our expected returns at 6.02% for 10 years and at 7.18% for 30 years.

Mr. Lagos gave his Executive Report, noting that Key Performance Measures again exceeded the 95% benchmark. The March Board materials will include the preliminary FY 2021 strategic business plan. He noted that he would be reviewing the recommendations from the Board included in the annual ED evaluation and integrating those suggestions into the business and action plans for the next fiscal year. Mr. Lagos noted that he and staff have begun work on evaluating whether or not a contact center would be beneficial in improving customer service.

He then presented the Member Satisfaction Dashboard for the first quarter of FY 2020, noting that satisfaction scores for administration of phone calls lags other indicators.

Mr. Lagos reported that our current lease extension will expire on March 31, 2021. The lease requires notice to the building's Lessor on or before June 30, 2020 if we wish to extend for an additional five-year term to March 31, 2026. In November 2019, we initiated a conversation with the Lessor to request consideration of Tenant improvements by way of refurbishing the kitchen. Those discussions were successful in that the Lessor agreed to fund construction and other costs, including wall removal, ceiling tiles, lighting, flooring, plumbing fixtures and appliances. This commitment was premised upon our commitment to exercise the current lease for an additional five-year period. Construction would begin in early April. Management recommended to the Board that it authorize staff to provide the Lessor with notice of our commitment to exercise the extension of the lease for five years, from March 31, 2021 to March 31, 2026. The new lease will contain the same terms and conditions but the rate will increase by \$1 per square foot. He added that currently no alternative sites meet the needs of NHRS. Mr. Lagos then outlined the facility operating costs provided by the Finance Department, and noted that the total for all building operating costs at the lease renewal in March 2021, will cost \$16.85 per square foot, as opposed to the current cost of \$15.85 per square foot.

On a motion by Trustee Myers, seconded by Trustee Dwyer, the Board unanimously approved the recommendation of Management that, pursuant to Article XIII of the lease agreement between FourKph, LLC and the New Hampshire Retirement System, the Executive Director is hereby authorized to exercise the option to extend the current lease for the 54 Regional Drive office space for an additional five-year period, expiring March 31, 2026, as presented, by roll call vote.

In the absence of the Project Manager Cecile Merrill, Mr. Lagos gave the PGM3 update, noting that currently NHRS is in an extensive design phase of Deliverable 2. Mr. Lagos noted that nine custom designs for changes to the system that were not originally in scope, will cost an additional \$159,579, extending the project timeline by five weeks, with a new completion date of February 1, 2022. He noted the goal is to limit further customization so that the total cost does not exceed the maximum figure built into the contract, keeping in mind that project customizations that are developed now will save time and money later.

Chief Legal Counsel Tim Crutchfield reported that he and Associate Counsel Mark Cavanaugh have been meeting with the Employer Audit team to look at the current audit processes, in an effort to see if any efficiencies could be gained, with the objective of increasing the number of employer audits conducted annually.

Director of Finance Gerard Murphy presented fiscal year 2020 year-to-date financial highlights, noting that the year-to-date net position balance is \$9.557 billion. He reported that minor variances in the actual to budget expenses were all categorized as timing issues, which will resolve as the fiscal year progresses. He noted that staff is working with GRS with respect to actuarial data in connection with the annual actuarial data extract reports, the pending FY 2019 actuarial valuation and the pending FY 2016 – FY 2019 experience study.

Mr. Murphy noted that the 1099 forms have been printed and mailed, and the new process went well, overall. A date error that was discovered on the JRP forms was corrected immediately.

Director of IT Frank Clough reported that the Server Room HVAC upgrade has been completed. He noted that the installation went very well and that in selecting this vendor, NHRS received good value at a low contract price.

Mr. Clough noted that as of this morning, Multifactor Authentication (MFA) has been implemented for 74% of all staff and the remaining installations will be completed within the next day or two. Lastly, he noted that the Telephone System Upgrade has begun, with the vendor's engineer spending three days looking at the project plan and the current phone system. A report will be provided to NHRS the week beginning February 16, outlining the path needed to successfully upgrade the phone system. Mr. Lagos added that we would no longer be working with Systems Engineering.

Director of Member Services Nancy Miller reported on July finals, noting that staff is working on the remaining ten finals this week to determine if those benefits can now be finalized. Member Services is also focusing on their continued work on PGV3 designs for Deliverable 2. Lastly, staff is working on the JRP member statements and prepping for the expected JRP audit in April.

Chair Gustafson introduced the Consent Agenda, noting that the recommendation in the matter of #7 – S.G., has been removed from the Agenda as a result of the petitioner withdrawing his appeal. On a motion by Trustee Dwyer, seconded by Trustee Hannan, the Board unanimously approved the Consent Agenda for disability recommendations #1 through #6 and administrative recommendation #8, by roll call vote.

Mr. Lagos then presented the Action Items from the January 14, 2020 Board meeting, noting that all items have been either completed or progressing well. He asked that Trustees contact IT to schedule orientation sessions in connection with the deployment of iPads for Board meetings.

Mr. Lagos noted that Mr. Karlon is working with Legislature to seek clarification on the administration of medical subsidy benefits, and that the Commissioner of the Dept. of Administrative Services has been apprised of our efforts.

Mr. Lagos informed the Board that staff has drafted a firearms policy to protect both external visitors and internal staff, and the topic will be addressed at today's Governance Committee meeting.

Chair Gustafson remarked that today's report from NEPC is the first of several to educate the Board on the rate of return and other assumptions that need to be considered as a part of the experience study.

With no further business to be discussed, on a motion by Trustee Myers, seconded by Trustee Hannan, the Board unanimously voted to adjourn the meeting, by roll call vote.

Respectfully submitted,

Margaret M. Astles, Executive Assistant