

NHRS Board of Trustees
Minutes

Note: These minutes from the January 14, 2020 Public Session were approved and executed at the February 11, 2020 Board of Trustees Public meeting.

**Board of Trustees
January 14, 2020
Public Minutes**

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

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

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

Chair Gustafson called the January 14, 2020 meeting of the NHRS Board of Trustees to order at 10:30 a.m. Having established a quorum, Chair Gustafson called for a motion to approve the December 10, 2019 public Board of Trustees meeting minutes, as amended. On a motion by Trustee Walker, seconded by Trustee Hannan, the Board unanimously voted to approve the December 10, 2019 minutes, as amended.

Trustee Dwyer presented the Audit Committee update, recapping that morning's meeting. He began with the Audit Tracker, noting that three of the five previous audit issues were closed, and four new audit issues were added relating to employer audits and payroll record adjustments. Management will be taking action to review and revise procedures and address processing issues related to the internal audit report.

Trustee Dwyer then reported on the 2020 Audit Plan, noting that data security remediation is about 85% complete, with most of the remaining items to be addressed by the implementation of PGV3.

Mr. Dwyer then reported that Plante Moran is in the process of completing its review of the GASB 68 & 75 reports, awaiting revised data from GRS. The Audit Committee voted to recommend the reports to the full Board, subject to receiving an unmodified opinion letter from Plante Moran.

On a motion by Trustee Dwyer, seconded by Trustee Hannan, the Board unanimously voted to accept the recommendation of the Audit Committee to accept the June 30, 2019 GASB 68 & 75 reports, as presented, subject to receipt of an unmodified opinion letter from Plante Moran. Lastly, a proposed modification to the Actuarial Funding Policy is under review and will be acted upon at next month's Audit Committee meeting.

Trustee Roy reported that the Governance Committee met on December 6, 2020, with staff's recommendation to revise the Governance Manual and to remove certain operational and administrative-related policies. 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 approve the revised Governance Manual, as presented.

Executive Director Lagos gave the Board an update on the Paperless Board Meetings, noting that the Trustees' iPads have arrived. Trustee orientations will be scheduled by IT after the devices have been properly configured for use.

Trustee Kelliher reported that the Independent Investment Committee (IIC) met on December 20, 2019, unanimously voting to renew the trading cost analysis agreement with Abel Noser Solutions through December 31, 2021. The Townsend Group presented an update on Fiscal Year 2019 performance, and the status of the Real Estate Investment Plan for Fiscal Year 2020. The Committee unanimously voted to renew the real estate investment management agreement with the Townsend Group through December 31, 2021.

NEPC presented a detailed review of the private equity and private debt portfolio and the Committee unanimously approved the strategic plan for these investments for Calendar Year 2020. Ms. Kelliher further reported that since the end of 2019, the markets continue to do well in spite of geo-political events, with markets recently moving to new highs. The economy has slowed a bit from the standpoint of job creation, but overall, the global economy will make the difference in whether or not we see a plateau and rebound of global growth, with much of that focus on China. We are now seeing improved export numbers, and much better stock performance coming from Europe.

Director of Investments Larry Johansen reported that at the January 2020 IIC meeting, NEPC will present its capital market assumptions for 2020, and what that means for NHRS asset allocation and long-term expected rate of return. Three asset management firms will attend the February meeting to present their capital market assumptions. It is anticipated that the IIC will make a recommendation to the Board on the assumed rate of return in April. In addition, NEPC will be coming to the February Board meeting to present their capital market assumptions, and one or two asset management firms will do the same at the March Board meeting.

Mr. Johansen gave the Board a brief overview of NEPC's Private Equity and Private Debt Portfolio presentation to the IIC last December. He noted that trailing one year (6/30/19) performance of the S&P 500 saw a total return of 10.4%, and the Barclay Cap Aggregate saw a fixed income return of 7.9%, with the 1-year combined return coming in at 7.2%. Over that same period, the Private Equity return was 8.8% and the Private Debt return was 4.4%. These investments continue to perform well with only a few under-performers. Mr. Johansen then reported that since the program re-start, NHRS has made 61 commitments with 30 general partners, noting that the strategy in fiscal years 2018 and 2019 was to slow down the commitment pace so as to not become overly committed. At June 30, 2019, NHRS had 18% invested relative to a 15% target, and the commitment pace for Calendar Year 2020 will be about \$400 million. The IIC is working with NEPC to see which general partners are coming back to the market in 2020. If there is any residual capital to make commitments, the IIC will then consider looking at new general partners to invest in.

Trustee Myers reported on the activities of the January 7, 2020 Legislative Committee meeting, resulting in recommending two actions by the Board, the first being a recommendation to take a position in opposition to LSR 3020.1. Executive Director Lagos explained that RSA 100-A: 27 provides the retirement system with the authority to make adjustments to pension payments based on corrections that need to be made in the

member record, and that the NH Supreme Court has endorsed that approach by the retirement system. The proposed LSR 3020.1 seems to constrain the retirement system from making record adjustments when the record is incorrect. Such a restriction would not be in accordance with general fiduciary trust law and the Internal Revenue Code, as NHRS must pay retirees only what they are entitled to, no more and no less. Director of Member Services Nancy Miller added that LSR 3020.1 would certainly impede upon very standard and regular business functions of Member Services, which routinely makes record adjustments that may impact benefit amounts, either prospectively or retrospectively. On a motion by Trustee Myers, seconded by Trustee Hannan, the Board unanimously voted to adopt the recommendation by the Legislative Committee that the Board oppose LSR 3020.1, because it appears to eliminate NHRS' authority under RSA 100-A to adjust member records in the ordinary course of business, as required and in accordance with general fiduciary trust law and the Internal Revenue Code, which requires that a member or beneficiary can only receive a benefit in the amount to which he or she is entitled, as presented.

The second action recommended by the Legislative Committee was to seek clarification to the statute relative to the administration of medical subsidies. Mr. Lagos noted that this motion stems from a disagreement between NHRS and the Department of Administrative Services (DAS) concerning the interpretation of the medical subsidy statute and other provisions that relate to how the subsidy is to be paid. Staff's position is that the appropriate approach is to apply the subsidy first, with the requirement for the retiree to pay any remaining premium deduction after. In a very limited number of circumstances, the amount of the subsidy eliminates the obligation for a retiree to make a premium payment. The State believes the wording of the statute as it appears now is clear, and that the retiree should be required to pay the premium deduction first and then the subsidy should be applied after. On a motion by Trustee Hart, seconded by Trustee Jean, the Board unanimously voted to adopt the recommendation of the Legislative Committee that the Board seek legislation to clarify RSA 100-A:54, III, relative to administration of the medical subsidy, as presented.

Trustee Myers highlighted three of 12 House Bills relative to NHRS. He began with HB 1205, which would push back the current recalculation of a Group I retiree's pension benefit from age 65 to the member's full retirement age under the federal Social Security system. Trustee Myers noted that this proposal could have a cost impact of \$37 million on the existing unfunded pension liability. HB 1235 establishes a committee to study ensuring workforce maintenance through the enhancement of retirement system benefits, and an appropriation of \$100,000 is attached to the bill for the purposes of this study. Lastly, HB 1341 changes the application of 2011 "HB 2" amendments to certain benefit provisions for Group II members vested prior to July 1, 2021. This bill has a potential \$142 million pension-liability impact.

Trustee Walker noted that the Benefits Committee has not met since the last Board meeting but a meeting is scheduled for January 28, 2020.

Trustee Hart reported that the Personnel Performance and Compensation Committee ("PPCC") met on January 7, 2020, and HR Manager Rosamond Cain updated the PPCC on staffing activities and the Management Coaching Program, which has been successful to date. CBA negotiations are still pending because NHRS is waiting for the fact-finder's report. Mr. Hart then noted that each Board member received the annual Executive Director Evaluation form and briefly reviewed the process for the annual performance review.

Mr. Lagos presented his Executive Operating Report, noting that Key Performance Measures once again exceeded the 95% benchmark. He turned the Board's attention to the documentation regarding the replacement of the cooling units housed in the server room. Bids were solicited from four HVAC vendors and Mr. Lagos approved the purchase and installation of two Mitsubishi cooling units from the lowest bidder, Total Climate Control, at a cost of \$10,600.

Mr. Lagos next presented a request for approval for a sole-source contract to upgrade the NHRS's five-year-old Cisco phone system software and hardware, at a cost of \$29,600, due to the fact that, as of July 1, 2020, Cisco will no longer develop, repair, maintain, or support the software to the current phone system. On a motion by Trustee Maloney, seconded by Trustee Hart, the Board unanimously voted to accept the recommendation of the Executive Director that the Board approve the phone system upgrade subject to contract and legal review, as presented.

In response to a question from Trustee Myers, Mr. Lagos noted that there is an internal working group looking at how staff utilizes and administers the phone system, emails, faxes, and "walk-ins," with the objective of improving customer service.

Next, Mr. Lagos reported on the results of his customer satisfaction call surveys for 2019, noting that he made 500 calls to retirees and members resulting in 228 conversations. Of those conversations, 216 were considered positive in terms of customer satisfaction, seven were neutral, and five were negative.

Mr. Lagos then reported on the NHRS lease that is coming up for renewal this summer. In recent discussions with the building owner, an agreement was reached with respect to a renovation of the kitchen, in consideration of NHRS exercising an option to extend the lease for five years. The decision on extending the lease will be presented for consideration at the next Board meeting.

Project Manager Cecile Merrill gave an update on PGV3 to the Board, noting that the project is well underway, with 30 design documents coming to NHRS for Deliverable 2, and slated for completion by mid-February. LRS will be onsite next week to review comments and questions related to the design documents. Staff continues to work on Data Conversion issues with 70 identified as of December 20, 2019, with 55 closed to date, and 16 are undergoing work.

Chief Legal Counsel Tim Crutchfield reported that the final RFP for NH local counsel was issued and staff has made its recommendations to the Governance Committee, who will meet to act upon those recommendations after today's Board meeting. The recommendation from the Governance Committee would be presented to the Board at next month's Board meeting.

Regarding litigation, Mr. Crutchfield explained that staff is still waiting for the Supreme Court to provide us with a scheduling notice in the A. Scott appeal, but last week the Court provided notice that the AG's Office was granted leave to appear as amicus curiae on behalf of that Office as Mr. Scott's employer.

Lastly, Mr. Crutchfield noted that with the learning curve of two new employer auditors starting in July 2019, Legal did not meet its KPM in January with respect to the expected completion of employer audits, and is not expected to meet the KPM over the next few months.

Director of Finance Gerard Murphy reported that the NHRS fiscal year to date net position through November 2019 is \$9.397 billion. The negative cash flow for the month is comparable to last year at \$16.199 million, and for the fiscal year is slightly ahead of last year. The Budget v. Actual negative variance for PGV3 costs through November 2019 is reflective of a timing related shortfall for two large payments to LRS incurred early in the year. On another matter, negotiations for the banking services contract resulted in additional cost savings. Mr. Murphy then noted that staff is in the process of finalizing the 2019 tax year 1099-Rs and staff anticipates getting the files ready to send to the printer within the next day. This year the notifications for changes to the W4-P form and Working after Retirement requirements will be included with the 1099-R mailing. Website notification will let retirees know that their 1099-R forms are available on MyAccount. In answer to a question, Mr. Murphy noted that by handling the 1099-R process in-house in conjunction with local printing and mailing vendors, staff anticipates savings of approximately \$25,000.

Director of IT Frank Clough reported on vulnerability and penetration testing, noting that in November 2019, staff hired Rhino Labs to perform penetration testing with the objective to identify any potential vulnerabilities in NHRS hardware. Following a remediation effort, all issues identified have been addressed. Mr. Clough then updated the Board on other security related matters and reported that a project to upgrade the hardware and software for the Cisco phone system would be initiated shortly.

Director of Member Services Nancy Miller reported on Employer Audit adjustments, noting that Member Services, Employer Audit, Human Resources and IT will be working collaboratively to address the Internal Auditor's findings. Regarding January retirement applications, staff has received 148 applications that are being processed. Lastly, Ms. Miller noted that Member Services is busy working with the Project Manager on the JRP annual member statements that are issued for the 2019 calendar year.

Turning the Board's attention to the Consent Agenda, on a motion by Trustee Hart, seconded by Trustee Walker, the Board voted to approve the Consent Agenda, as presented. Trustee Jean abstained from Disability Application #6.-B.T.

Mr. Lagos noted that all action items from the December Board meeting are either completed or under way.

Chair Gustafson reported that the Board would be entering into a series of activities in the next several months that will result in the Board's evaluation and adoption of actuarial assumptions that will affect the next four years of NHRS funding. Mr. Lagos emphasized that the next three months are very important as the Trustees will be provided with data and information concerning all actuarial assumptions, including the assumed rate of return, which is the most important actuarial assumption and of critical importance for establishing employer contribution rates and assuring proper funding of the plan.

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

Respectfully submitted,

Margaret M. Astles
Executive Assistant