

NHRS Board of Trustees  
Minutes-June 11, 2019

**Note:** These minutes from the June 11, 2019 Public Session were approved and executed at the July 9, 2019 Regular meeting of the Board of Trustees.

**Board of Trustees  
June 11, 2019  
Public Minutes**

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

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

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

Chair Gustafson called the June 11, 2019 regular meeting of the NHRS Board of Trustees to order at 10:01 a.m. Having established a quorum, Chair Gustafson called for a motion to approve the Public and Non-Public Minutes from the May 14, 2019 Board of Trustees meeting.

On a motion by Trustee Roy, seconded by Trustee Dwyer, the Board unanimously voted to approve the minutes, as presented.

Trustee Dwyer presented the Audit Committee update, recapping that morning's meeting. He began by noting that the auditors from Plante Moran introduced the approach that will be taken for the FY 2019 audit for the CAFR, employer allocation of pension liabilities and OPEB medical liabilities. Plante Moran will return in July to get the audit underway. He noted that there is a good rapport between the NHRS staff, Audit Committee and the auditors.

Trustee Dwyer updated the Board on the Audit Tracker, noting that the QDRO matter will remain open on the tracker until the PGV3 conversion. The remaining data security remediation medium-priority items have all been addressed. High-priority items are 65% complete and several more high-priority items should be finished in the next 30 days.

Trustee Roy reported that the Governance Committee did not meet in May, but would be meeting at the conclusion of the morning's Board meeting. He noted that the Committee would be updated on the paperless board meeting pilot project and there is action expected on the cyber insurance renewal.

Trustee Kelliher reported that the Independent Investment Committee (IIC) last met on May 31<sup>st</sup>, at which time it unanimously voted to extend the investment management agreement with Wellington for two years with respect to its Emerging Markets Local Equity Fund.

The IIC also heard presentations from two fixed income managers, Brandywine and Loomis Sayles, each managing multi-sector global fixed income portfolios on behalf of NHRS.

The IIC reviewed and approved revisions to the Asset Class Guidelines. Trustee Kelliher reported that although the System had been doing well, the markets took a downturn in May due to situations in Washington and the global economic slowdown. Fortunately, the Federal Reserve has indicated that there could be at least one potential rate cut for the rest of the year. Director of Investments Larry Johansen added that while we have a long-term investment horizon, the fiscal year ends on June 30, 2019, leaving only fourteen trading days remaining until the annual rate of return is determined, which will directly impact the calculation of employer contribution rates for fiscal years 2022 and 2023.

Mr. Johansen reiterated that June has not completely reversed the market downturn in May but may come very close. Performance through April 30, 2019 for marketable assets for the past three years is up 9.1% relative to the index of 9.0%, five years is up 6.3% relative to the index of 6.6%, and ten years is up 10.2% relative to the index of 10.3%. He noted that all Asset Classes are very close to target and well within their ranges. Both investment and administrative expenses are very favorable relative to the NEPC and NCPERS universe averages.

The June 21<sup>st</sup> IIC meeting will conduct the annual real estate review. In addition, the Committee will review the fiscal 2019 Real Estate work-plan and set the fiscal 2020 work-plan. There will be a six-month update of the private equity-private debt portfolio. Mr. Johansen invited the Board of Trustees to attend.

Trustee Dwyer indicated that he considered it noteworthy to mention that NHRS has reached \$9 billion in assets for the second time.

For the Legislative Committee's report, Trustee Myers noted that the legislative session is winding down. He asked Public Information Officer Marty Karlon to report on the bills that are still active. Mr. Karlon reported that an internal working group had been formed to review administrative issues related to the enactment of the 1.5% COLA that has passed both chambers and will be sent to the Governor for his signature. He further commented that legislation requested by NHRS to modify the approach to calculate oversight and military service purchases was awaiting the Governor's signature.

Trustee Walker reported on the Benefits Committee meeting held on June 4<sup>th</sup>. The Committee was informed about how the medical subsidy is calculated for a certain population of state retirees and also reviewed the practice of "re-filing," where certain members regularly file and withdraw their applications for retirement in order to preserve survivor benefits in the event they should die while in service.

A review of electronic direct deposits (EDD) of retirement payments indicated that out of 38,000 beneficiaries, only 1,500 paper checks are issued with the remaining payments occurring monthly via electronic deposit. Staff is reviewing the possibility of making EDD mandatory as it is in some other states, a change which may require a legislative act.

The Committee also received an update on HB 116, a bill that would transfer the authority to reclassify certain line personnel positions at the Dept. of Corrections (DOC) from Group I to Group II. Under current law, the legislature has this authority; under HB 116 the Board of Trustees will have the authority after the State Division of Personnel confirms that the positions meet the definition of correction line personnel in RSA 100-A. HB 110, would sunset the law after one year, so staff anticipates the Board may be presented with a significant number of reclassification requests in the coming year. Staff will be reaching out to DOC to develop a process.

Trustee Walker noted that the Committee met in non-public session to review two disability re-examinations and a possible medical subsidy recoupment matter. No votes were taken during non-public session.

Trustee Hart reported on the Personnel, Performance and Compensation Committee Meeting of June 4, 2019. HR Manager Rosamond Cain walked the Committee through the revisions to the Employee Handbook, which primarily focused on recent legislative changes. The Committee endorsed the recommendations to be approved by the Board of Trustees.

On a motion by Trustee Myers, seconded by Trustee Hart, the Board voted unanimously to approve the proposed revisions to the Employee Handbook.

On a motion by Trustee Walker, seconded by Trustee Hart, the Board unanimously voted to temporarily adjourn the meeting for the purpose of discussing collective bargaining strategy or negotiations under RSA 91-A:2,I(a).

On a motion by Trustee Roy, seconded by Trustee Maloney, the Board voted unanimously to reconvene the Board meeting.

Chair Gustafson indicated that the next item on the agenda was a discussion on succession planning. On a motion by Trustee Hart, seconded by Trustee Dwyer, the Board voted to enter into non-public session under RSA 91-A:3, II(c) to discuss persons other than members of the public body. A roll call vote was taken and the motion passed unanimously.

On a motion by Trustee Hart, seconded by Trustee Walker, the Board unanimously voted to reconvene the Board meeting. No votes were taken during non-public session. The Board then took a three-minute recess.

Once back in public session, on a motion by Trustee Hart, seconded by Trustee Walker, the Board voted unanimously to accept the PPCC's recommendation with respect to setting the Executive Director's compensation.

Kathleen A. Riley, Senior Vice President and Actuary of the Segal Consulting firm presented the results of the full scope audit of the actuarial valuation as of June 30, 2017 and the limited scope audit of the 5-year experience study from July 1, 2010 through June 30, 2015 by the Gabriel, Roeder, Smith & Company (GRS) Retirement Consulting firm. GRS noted in a letter to the NHRS Executive Director that it was pleased that Segal found the actuarial valuation provided by GRS to be reasonable and performed in accordance with generally accepted actuarial practices.

Executive Director Lagos thanked Ms. Riley and Segal Consulting for a job well done. In conclusion, he observed that there had been two recent decisions by the Board, which were

of particular significance to the health of the System. He noted that the decision to replace KPMG as our external auditor with Plante Moran, was successful and the issuance of an unmodified opinion by the new audit firm was an important validation of the System's operations. Similarly, the actuarial audit reports issued by Segal validated the actuarial work done by GRS, providing assurances that both the 2017 valuation report and the 2015 experience study adhered to Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

Executive Director Lagos presented his Operating Report, noting that Key Performance Measures scored 100% this month. He then reported that there were three contracts executed in the prior month: one with DXC Technology to provide support for Microsoft Dynamics, Management Reporting and other related software utilized primarily by the NHRS Finance operation; and, two with Silvertch for website enhancement services and an upgrade to the Sitefinity website software.

He then advised the Board that a substantial contract with LRS will be coming before the Board in July for ongoing maintenance and support to PGV2. The annual cost of \$200,000 annually over the next 4-5 years represents a savings of \$1 million over that period during the transition to PGV3.

Project Manager Cecile Merrill gave the Board an update on progress of the PGV3 project, now 3% complete. Approximately 1,300 requirements have been reviewed, and there are several parked requirements that will necessitate additional consideration. Staff is beginning the review of the PGV3 design documents and continues to work on data cleansing.

Chief Legal Counsel Tim Crutchfield updated the Board that the annual GASB audits are underway for pension and OPEB liabilities. This year, Plante Moran has reduced the number of required audits from 31 to 21 with 11 completed and 10 in process, with an expected completion date in July.

Finance Director Gerard Murphy reported that an Employer Education Session was held in May for school district employers, covering employer audits and reporting. Also in May, Finance staff met with Tyler Technologies, a third party payroll provider that many NHRS employers use. He noted that staff has established a working group of NHRS employers consisting of representatives from six employers and NHRS staff. He reported the purpose of the group is to get input from employers on current monthly reporting issues and concerns so that they may be considered in the development of the Employer Direct module of the PGV3 project.

Mr. Murphy noted that the State's Administrative Budget, HB 2, was passed by the Senate and is soon to be in the Committee of Conference phase. The only substantive change impacting NHRS made by the Senate from the House version of HB 2 was the removal of \$50,000 in funding from the general fund to reimburse NHRS for legislative analysis, which NHRS supports.

Mr. Murphy then directed the Board's attention to the proposed Fiscal 2020 Trust Fund Budget. On a motion by Trustee Dwyer, seconded by Trustee Maloney, the Board unanimously voted to approve the Fiscal Year 2020 Trust Fund Budget, as presented.

Executive Director Lagos, reporting for IT Director Frank Clough, updated the Board on the

Imaging Project, which is beneficial to NHRS in that it resulted in the termination of a contract with a local storage facility, eliminating future monthly charges and potential security concerns with housing documents with personal information at an external location.

Member Services Director Nancy Miller reported that the System received 695 July retirement applications, which is slightly under the 744 received last year. Over 300 retirees have been put on the July payroll, with the rest in process. Member Services is heavily focused on staffing and has put together transition and cross-training plans, while recruiting to fill two remaining positions continues.

Moving on to the Consent Agenda, on a motion by Trustee Walker, seconded by Trustee Hart, the Board unanimously voted to approve the Consent Agenda, as presented.

Mr. Lagos reported on Action Items from the May Board meeting, pointing out that three items had not been resolved but are being regularly monitored.

Mr. Lagos then reported on other business, noting that the Annual Employee Appreciation BBQ will be held at the July 9<sup>th</sup> Board meeting.

Chair Gustafson noted that he and Mr. Lagos met with the Governor's staff to discuss expiring terms of Board members, emphasizing the importance of continuity, particularly given the number of newly-appointed Trustees. Mr. Lagos added his appreciation for the willingness of current Trustees to serve if re-nominated for appointment.

Chair Gustafson thanked outgoing Trustee Michael Milligan for his service to the Board of Trustees and on several NHRS Committees. Trustee Milligan replied that he has been very impressed by the work done by management and the Board. He was applauded for his dedication and efforts.

On a motion by Trustee Walker, seconded by Trustee Roy, the Board unanimously voted to adjourn the meeting.

Respectfully submitted,

Margaret M. Astles  
Executive Assistant