

Note: These minutes from the March 8, 2016, regular meeting were approved and executed at the April 12, 2016 regular Meeting of the Board of Trustees.

**Board of Trustees
March 8, 2016**

The Public Minutes

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

Trustees: Dick Gustafson, Ph.D., *Chair*; Tonya Angwin; John Beardmore; Dean Crombie; Bill Dwyer; Julia Griffin; Maureen Kelliher; Germano Martins; David McCrillis; Bruce Moorehead; Don Roy; Hershel Sosnoff; and George Walker.

Staff: George Lagos, *Executive Director*; Jack Dianis, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Denise Call, *Director of Employer Services*; Nancy Miller, *Director of Member Services*; Frank Clough, *Director of IT*; Heather Fritsky, *Controller*; Nancy Cone, *Internal Auditor*; Nina Calkins, *Process Improvement Manager*; Mark Cavanaugh, *Associate Counsel and Compliance Officer*; Carolyn Johnson, Esq., *Hearings Examiner*; Marty Karlon, *Public Information Officer*; Rosamond Cain, *Human Resources Manager*; Shannan Hudgins, *Administrative Coordinator*.

Guests: David T. Kausch and Heidi G. Barry, *Gabriel Roeder Smith & Company*.

Chair Gustafson called the March meeting of the NHRS Board of Trustees to order at 9:05 a.m. and expressed his appreciation to Trustee Sosnoff for serving as Chair at the February 9, 2016 Board of Trustees meeting. On a motion by Trustee Dwyer, seconded by Trustee Griffin, the Board of Trustees unanimously voted to approve the public minutes of the February 9, 2016 Regular Board Meeting.

Audit Committee Chair Beardmore opened his report with a recommendation to the full Board regarding the Employer Withdrawal Rule. On a motion by Trustee Sosnoff, seconded by Trustee Roy, the Board of Trustees unanimously voted to approve the Final Proposal text on the draft Employer Withdrawal Rule as amended and recommended by the Audit Committee, thereby allowing Staff to continue with the rulemaking process. Trustee Beardmore noted that *Internal Auditor* Nancy Cone had developed a new Tracker summary page that he thought would be of use to the Trustees. He stated that KPMG had presented the 2016 audit plan for the Committee's review. In closing, Trustee Beardmore noted that Frank Clough, *Director of Information Technology*, had discussed IT security matters addressed in 2016 and that positive progress had been made.

Trustee Walker reported that the Benefits Committee had met on March 4, 2016 and had voted on a recommendation on the O'Day matter that would be presented to the

full Board at its April meeting. Cheshire County Group II certification and an update on medical subsidy matters had been presented by Staff. The Committee had also reviewed and acted upon a recoupment recommendation.

Trustee Roy stated that the Governance Committee had not met in January or February and there were no items to present to the Board. He announced that the Committee would convene following the full Board meeting.

Trustee Sosnoff presented the Investment report, beginning with funds held in trust as of January 31, 2016, which totaled \$6.97 billion, representing a loss of \$26 million for the month, and a \$560 million loss FYTD. Trustee Sosnoff cited continued volatility in US and non-US equity markets as the primary reason for the losses, noting that some gains had occurred in February. He reported that at its February meeting, the Independent Investment Committee (IIC) had reviewed the System's exposure to recent volatility impacting energy investments. He also noted that NHRS continued to benefit from particularly low trading costs, as reported by Abel Noser. *Director of Investments* Larry Johansen reported that the price of crude oil continued to effect global markets disproportionately. He was optimistic that the strong jobs report issued on Friday, March 4, 2016, would positively influence the US market. Mr. Johansen stated that at its March 18th meeting, the IIC would engage in a review of the System's fixed income portfolio, as well as private equity opportunities. He noted that the IIC would also be developing its recommendation on the assumed rate of return at its next meeting.

Marty Karlon, *Public Information Officer*, provided a Legislative update at the request of Trustee Sosnoff. He reported that two potentially significant bills were unlikely to move forward in this year's legislative session, noting that the cash balance bill had been tabled and the temporary supplemental adjustment bill had been referred to interim study. The Trustees engaged in a brief discussion of SB 390, the bill that would require an alternate presiding officer for disability application appeals. Historically, fewer than six disability cases a year were appealed, and *Executive Director* George Lagos stated that an external hearings officer would have to be engaged to adjudicate these appeals if the bill became part of RSA 100:A.

Trustee Crombie reported that the PPCC had convened on March 4, 2016, to discuss collective bargaining negotiations and the annual review of the Executive Director. In explanation for the ensuing Board discussions, Chair Gustafson explained that following an expected temporary adjournment, the Board would formally move into a non-public session for the annual review of the Executive Director.

On a motion by Trustee McCrillis, seconded by Trustee Beardmore, 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 Martins, seconded by Trustee Dwyer, the Board unanimously voted to reconvene the Board meeting.

On a motion by Trustee Beardmore, seconded by Trustee Griffin, the Board voted to enter into non-public session under RSA 91-A:3, II(c) to discuss a matter which could adversely impact the reputation of someone other than a member of the Board, on a roll call vote, as follows:

Ayes: Trustees Gustafson, Angwin, Beardmore, Crombie, Dwyer, Griffin, Kelliher, Martins, McCrillis, Moorehead, Roy, Sosnoff, and Walker.

Nays: None.

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

Chair Gustafson called for a ten-minute recess.

Upon the resumption of the meeting, consulting actuaries David Kausch and Heidi Barry offered the Trustees a review of the Five-Year Experience Study conducted by GRS, for the period July 1, 2010 through June 30, 2015. A broad discussion ensued as Ms. Barry and Mr. Kausch explained the impact of improved mortality rates on pension trusts, both for New Hampshire as well as across the nation, particularly for teachers. They discussed the NHRS assumed rate of return in light of the most recent Experience Study, noting the delicate balance between the State's changing demographics and expected wage growth. One demographic matter discussed in detail was the trend of declining public school enrollment and the future impact it could have on teacher payrolls and contributions. Mr. Kausch noted that he and Ms. Barry would return to NHRS for the May 10th Board meeting, at which time it was anticipated the Board would adopt new actuarial assumptions in advance of setting the employer contribution rates for fiscal years 2018 and 2019.

Mr. Lagos reviewed his monthly reports, noting that the KPM score continued above 95% this month and on a rolling twelve month basis. His weekly member satisfaction calls to individuals continued to generate positive feedback from members and retirees. He expressed his on-going appreciation of Staff efforts in service of the membership. Mr. Lagos specifically addressed the February 2016 annual Preserve/Achieve/Avoid assessment that would be incorporated into the Strategic Plan, along with objectives identified by Trustees in his annual review.

Chief Legal Counsel Timothy Crutchfield presented a brief legal update focused on the February 3, 2016 HB2 hearing in Hillsborough Superior Court. He stated that Judge Abramson had issued her decision dismissing the petitioners' constitutional challenges just nine days following the hearing on the motions. Atty. Crutchfield stated that a decision in the McNamara benefit calculation matter heard on February 23rd in Merrimack County Superior Court had been put on hold at the suggestion of Judge McNamara (no relation) so that NHRS Staff could meet with Mr. McNamara to explain the mechanics of his retirement benefit calculation. He closed by noting that the State employer audit plan was in its early stages and progressing as expected.

Jack Dianis, *Director of Finance*, began his Finance report by noting that State Bond disclosure preparation had gone well and been completed on schedule. He reviewed the monthly financial reporting package, noting that the increase in year-over-year employer contributions was due to the change in employer rate and increased covered payroll and the increase in member contributions was entirely due to covered payroll since the member contribution rates, set in statute, did not change. He closed by

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commenting that the budget-vs-actual continued to show a favorable expense variance.

Director of Information Technology Frank Clough reported that security vulnerabilities had dropped from sixty (60) in June 2015 to four (4) presently, representing material improvement and successful implementation of security protocols by the IT team. He explained that the co-location infrastructure would be in place in Marlborough, Massachusetts by July of this year. Mr. Clough noted that the imaging conversion project was nearing completion, with over 6 million images successfully migrated from the old system to the PensionGold platform.

Nancy Miller, *Director of Member Services*, stated that scheduled appointments were increasing in volume, as expected, as educators prepared for July 1 retirement. She noted that newly created PensionGold wizards were proving quite useful to Staff in processing employer refunds generated from audits by NHRS auditing staff.

Director of Employer Services Denise Call stated that process improvement plans to automate the insurance authorization process were progressing well. She noted that an action plan was under development to move NHRS participating employers to ACH payment for monthly contributions.

On a motion by Trustee Kelliher, seconded by Trustee Roy, the Board unanimously voted to approve Consent Agenda *without* Matter #6.

On a motion by Trustee Martins, seconded by Trustee Beardmore, the Board voted to approve Matter #6 on the Consent Agenda; Trustee Griffin abstained.

On a motion by Trustee Martins, seconded by Trustee Sosnoff, the meeting was adjourned at approximately 11:25 a.m.

Respectfully submitted,
Shannan Hudgins