

NHRS Board of Trustees  
October 10, 2017

**Note:** These minutes from the October 10, 2017 Public Session were approved and executed at the November 14, 2017 Regular Meeting of the Board of Trustees.

**Board of Trustees  
October 10, 2017**

**Public Minutes**

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

*Trustees:* Chair Dick Gustafson, Ph.D.; Tonya Angwin; John Beardmore; Julia Griffin; Bill Hart; Maureen Kelliher; Stephen Marro; Germano Martins; David McCrillis; Don Roy; and George Walker. Bill Dwyer, absent.

*Staff:* George Lagos, *Executive Director*; Heather Fritzky, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Nancy Miller, *Director of Member Services*; Nancy Cone, *Internal Auditor*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Carolyn Johnson, Esq., *Hearings Examiner*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager*; Carolyn Madden, *Controller*; Marty Karlon, *Public Information officer*; and Margaret Astles, *Executive Assistant*. Frank Clough, *IT Director*, absent.

Chair Gustafson called the October 10, 2017, 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 to approve the September 12, 2017 public minutes. On a motion by Trustee Marro, seconded by Trustee Beardmore, the Board unanimously approved the minutes as amended.

Chair Gustafson called for the report of the Investment Committee to be taken out of order as Trustee Kelliher had to be excused from the meeting after her report.

Trustee Kelliher reported that the Independent Investment Committee (IIC) met on September 29, 2017 and heard presentations from the Carlyle and the CarVal Groups. The IIC made a \$50 million commitment to the Carlyle Asian Partners Cap V Fund and a \$50 million commitment to CarVal's Credit Value Fund IV. The IIC also heard a presentation from Income Research and Management in connection with the renewal of its Government Credit Fixed Income Portfolio and a short duration liquidity management portfolio. She commented that September proved to be a very good month for capital markets and it looks like another strong year. For the first time in years, the unemployment report for September is seeing a negative number in jobs created. The long standing labor trends are extremely strong bringing the

unemployment rate down to 4.2%, a 20 year low. The 2<sup>nd</sup> quarter figures for the Gross Domestic Product came in at 3.1% annualized and the 3<sup>rd</sup> quarter is looking very good at the moment. This is some of the best growth in the U.S. economy since the recession of 2008 and 2009 and global growth is incredibly strong as well.

Trustee Kelliher was excused at 10:40 a.m.

Director of Investments Larry Johansen, adding to the IIC report, stated that NHRS realized a 13.5% return on investments in fiscal year ending June 30, 2017, outperforming the Total Fund benchmark return of 11.9%. NHRS is performing better than 90% of its peers over 3 and 5 year periods and performed better than 80% of its peers over the 1, 10, 20 and 25 year time horizons with the long term return at 8.2% for 25 years. In response to an inquiry from the House Finance Committee on the efficacy of the IIC, Mr. Johansen provided an analysis which demonstrated the outstanding investment results of the IIC as compared to prior experience when the Board of Trustees was directing the investment portfolio. Mr. Johansen reported that based on analytical data provided by our investment consultant, NHRS is doing very well managing administrative and investment expenses as compared to peer pension systems.

Trustee Beardmore reporting for the Audit Committee, stated that an Internal Audit update was received from Nancy Cone, with respect to capital call funding which revealed no material concerns or observations. The Committee reviewed the FY18 Audit Plan and Tracker which showed no changes from last month. An update was received from Finance Director Heather Fritsky on KPMG, and on the status of the FY 2017 financial audit. Also included was a briefing from Executive Director George Lagos on a proposed sole source contract for a risk assessment on data security issues. The Committee was supportive of the recommended approach. Lastly, the Audit Committee reviewed and approved a report on the annual Ethics Survey.

On a motion by Trustee Beardmore, seconded by Trustee Griffin, the Board unanimously voted to accept the annual Ethics Survey Scorecard as presented.

Trustee Walker reported that the Benefits Committee did not meet this month. The Board then considered the Gainful Occupation Report presented by Associate Counsel Mark Cavanaugh, who responded to questions regarding the status of the 191 noncompliant retirees reported. Attorney Cavanaugh replied that the number has come down significantly since the final notice for compliance was sent out last week before the October 15<sup>th</sup> extension deadline for tax return filings with the IRS.

On a motion by Trustee Hart, seconded by Trustee Roy, the Board voted unanimously to approve the 2016 Calendar Year Gainful Occupation Compliance Report.

Trustee Roy presented the Governance Committee report and a recommendation to approve the proposed OFAC Policy Revisions. Trustee Roy reported that Attorney Cavanaugh's annual review found no known violations to the federal OFAC Rules. Three revisions to the policy were reviewed and discussed.

On a motion by Trustee Roy, seconded by Trustee Griffin, the Board voted unanimously to accept the recommendation of the Governance Committee that the Board approve the proposed revisions to the OFAC Policy.

Public Information Officer Marty Karlon spoke on behalf of the Legislative Committee with respect to the 2018 LSRs posted on the General Court website. He explained that the LSRs are just bill titles that are subject to change. These House LSRs have been reported to date with the Senate filing period beginning October 12<sup>th</sup> and concluding December 22<sup>nd</sup>, 2017, so there will be more proposals to come.

Chair Gustafson gave the Board an update on the Decennial Commission noting that the Commission was coming to the end of its information gathering period. On September 24<sup>th</sup>, David Kausch from GRS gave a presentation reporting on actuarial issues and the unfunded liability. The conversation moved toward layered amortization which interested the group. Keith Brainard of NASRA also gave a presentation on retirement systems around the country, with particular interest by Commission with funding levels and COLAs.

The following week, Chief Legal Counsel Tim Crutchfield reviewed the Supreme Court decisions arising from previous legislative reforms. There were also presentations on the medical subsidy as well as working after retirement issues. Public input was received from various employee and employer representative groups.

The following week a presentation was made by Sandra Matheson, Executive Director of the Maine Public Employees Retirement System, about how that plan has approached its unfunded liability. Maine is about 10 years ahead of NHRS in its progress in this area. Maine has also integrated layered amortization into its process. The session was very instructive in that it confirmed the effectiveness of Maine's approach, which is virtually identical to that which NH has in place, resulting in Maine's current 80% funded ratio.

The Commission sent out an RFP to three organizations for an independent review of the status of the NHRS. The proposals were due on October 9<sup>th</sup>. The Commission members will receive the proposals and discuss them on October 12<sup>th</sup>.

Trustee Griffin reported that the PPCC has not had a meeting lately as she has been away, but HR Manager Rosamond Cain has kept the PPCC informed. She explained that there is a Cultural Assessment Group that is very active currently.

Associate Counsel Mark Cavanaugh gave a brief Power Point overview on employer audits. He provided an overview on employer audits, GASB audits, employer education, Gainful Occupation and HB 342 reporting. He also discussed common audit issues such as earnable compensation for vested vs. non-vested members, salary continuance, failure to submit proper forms, worker's compensation service credit, HB 342 misreporting and attestations for work hours for part time and elected officials.

Member Services Director Nancy Miller commented on the newly automated member record adjustment and refunds processes that were completed in 2016 and there was commentary on employer education and outreach efforts which are currently underway.

Director Lagos presented the Executive Director's Update beginning with Key Performance Measures that scored 97.70% this month. Mr. Lagos reviewed the submission for consideration by the Board of a sole source contract for a comprehensive risk assessment following the recent data security incident.

On a motion by Trustee Beardmore, seconded by Trustee Angwin, the Board voted unanimously to accept the recommendation of the Executive Director that the Board approve the risk assessment proposal subject to contract and legal review.

Chief Legal Counsel Tim Crutchfield gave his Legal presentation noting that the Employer Audit staff continues to move along with its school audits, and that those audits take a bit longer and that we are about halfway through auditing schools and SAUs. The State audit being conducted currently is for the Dept. of Transportation.

Finance Director Heather Fritsky reported that the books for FY17 were closed last week and the final but unaudited number for the net position at year end is \$8.293 billion which is up \$832 million over FY16. There was some discussion about the Independent Medical Examination fees which were slightly over budget due largely to more psychological evaluation requests which typically cost between \$4,000-\$5,000 vs \$250-\$1,500 for a regular medical exam. In response to a question from Trustee Martins, Nancy Miller noted that the difference in cost between the psychological and physical exam depends on the hours spent with the patient and writing the reports. The FY2017 Annual Call Fire Report reflects two recipients that are still receiving benefits. The annual benefit payments to them totaled \$6,144.48. Attorney Cavanaugh verified that if there is money left over when the recipients are no longer collecting, there will be an obligation to return funds.

IT Director Frank Clough could not be at the meeting for the IT presentation but Director Lagos noted that he would report for Director Clough. He began by stating that Frank is working with a consultant who will be coming to NHRS to provide Security Awareness training for all staff with emphasis on social engineering security issues dealing with email, links and related security issues. Director Lagos reported that upgrades have been made to the phone system, VM Ware and security cameras. An LRS Version 3 visit in November has been scheduled. IT is down one person in staffing and management is seeking to fill the vacancy.

Director of Member Services Nancy Miller reported that they are finalizing insurance authorization training modules and walking employers through the automation process. *My Account* had a soft launch last week of the new enrollment process and staff is monitoring it closely.

The Consent Agenda was then addressed with questions raised with respect to items #3, #4, #12 by Trustee Martins and #13 by Trustee Walker.

On a motion by Trustee Angwin, seconded by Trustee Roy, the Board unanimously voted to accept the consent agenda with the exception of items #3, #4, #12 and #13.

On a motion by Trustee Martins, seconded by Trustee Hart, the Board voted to enter into non-public session under RSA 91-A3, II(c), on a roll call vote as follows:

Ayes: Chair Gustafson, Trustees Angwin, Beardmore, Griffin, Hart, Marro, Martins, McCrillis, Roy and Walker. Nays: None

On a motion by Trustee Marro, seconded by Trustee Hart, the Board unanimously voted to conclude the non-public session. No votes were taken in the non-public session.

On a motion by Trustee Martins, seconded by Trustee Hart, the Board unanimously voted to refer Consent Agenda items #3, #4, #12 to the Benefits Committee.

On a motion by Trustee Roy, seconded by Trustee Beardmore, the Board voted to uphold the recommendation of the Hearings Examiner on Item #13 of the Consent Agenda. Trustee Hart abstained.

There are no travel requests at this time.

Director Lagos spoke to the Action Items from the September Trustee meeting noting that all actions have been taken.

Under Board Checkpoint Discussion, Chair Gustafson addressed the resignation of Trustee Beardmore from the Board due to his impending departure from the Department of Revenue Administration, noting that this would be his last meeting. Chair Gustafson thanked Trustee Beardmore for his good work done on the Board of Trustees and as Audit Committee Chair, and presented him with an award of appreciation. Trustee Beardmore addressed the Board noting that his five years on the Board have been a wonderful experience and he has appreciated the professionalism of the Trustees and the staff. He thanked the Board for the opportunity. Director Lagos and Trustee Walker personally thanked Trustee Beardmore for his dedication and support, as well as his valuable contributions to the Benefits Committee.

On a motion by Trustee Hart, seconded by Trustee Walker, the Board voted unanimously to adjourn the meeting at 12:35 pm.

Respectfully submitted,

Margaret M. Astles  
Executive Assistant