

Note: These minutes from the September 13, 2016, Annual Meeting were approved and executed at the October 11, 2016, Board of Trustees regular meeting.

**Board of Trustees
September 13, 2016**

The Public Minutes

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

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

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

Guest: Cathie Eitelberg, *Segal Consulting*

Chair Gustafson called the September 13, 2016 Annual Meeting of the NHRS Board of Trustees to order at 9:34 a.m. and welcomed Londonderry Police Chief Bill Hart as a new trustee. Having established a quorum, on a motion by Trustee Roy, seconded by Trustee Kelliher, the Board voted to approve the public minutes of the August 9, 2016. Trustee McCrillis abstained.

Trustee Beardmore presented the Audit Committee update, reporting that at the morning's meeting the Committee had reviewed the Audit Tracker, reviewed and made no changes to its Charter, and that staff had begun an extensive review of the LRS PensionGold business platform system. He stated that the PensionGold version currently in use was a twelve-year-old system and that NHRS was the largest pension system nationwide using the version. Trustee Beardmore noted that the Committee's thorough evaluation would include a potential system upgrade with LRS, as well as a review of other pension system database platforms.

On a motion by Trustee Beardmore, seconded by Trustee McCrillis, the Board unanimously voted to accept the recommendations of the Audit and Governance Committees to approve the Fraud Policy which had been provided to the Board at last month's meeting.

Trustee Walker reported that the Benefits Committee had not met in the last month, but he anticipated scheduling a Committee meeting before the next Board meeting.

On a motion by Trustee Walker, seconded by Trustee Roy, the Board unanimously voted to accept the recommendations of the Benefits and Governance Committees to approve the proposed revisions to rule Ret. 202.01 and authorize staff to begin the JLCAR rulemaking process.

Trustee Roy announced that the Governance Committee would meet immediately following the Board meeting to review the Committee Charter and Ret. 401.04(d), the provision of the NHRS Administrative Rules addressing gift limits.

On a motion by Trustee Roy, seconded by Trustee Beardmore, the Board unanimously voted to approve the 2017 Board Meeting Calendar as presented.

Larry Johansen, *Director of Investments*, presented the Investment Committee report, stating that labor market gains had continued to improve in the summer months. The average number of jobs added to the U.S. economy in June, July and August was 239K, and he noted that the unemployment rate was holding at 4.9%. Mr. Johansen stated that despite the market fluctuations, all asset classes were close to their target ranges.

In his IIC update, Mr. Johansen stated the Committee had not met in August but would address a full agenda at its September 23rd meeting. The Committee would be working on the Comprehensive Annual Investment Report (CAIR), hear presentations from three current managers as part of the two-year contract renewal process, hear a presentation from an existing General Partner on its next fund and continue its active-vs-passive discussion from the July meeting. He closed by stating that the Committee would discuss the possibility of replacing a potential Carlyle South American commitment with an Asian commitment.

For the Legislative Committee update, Marty Karlon, *Public Information Officer*, reported that he, Mr. Lagos, Mr. Johansen, and Mr. Dianis, would attend the NH House of Representatives Special Pension Committee scheduled for Thursday, September 15, 2016, beginning at 10:00 a.m. He stated that NHRS had been invited to present details on employer rates and he anticipated they would field additional pension and System-related questions from Representatives present. Mr. Karlon noted that three city mayors were expected to speak at the hearing. He then detailed the three bills held over from the 2015-16 Legislative Calendar: funding for a TSA to retirees; a Cash Balance proposal; and a Defined Contribution proposal held over for two sessions.

In her PPCC update, Trustee Griffin reported that the Committee had met August 30th to review its Charter, review the Mission Values and Vision (MVV) statement prepared by Staff, and discuss collective bargaining matters. She asked that the Board review the MVV in anticipation of a Board vote at its October meeting. She noted that the alterations to the Committee Charter were minor editorial changes which did not alter the substance of the document.

On a motion by Trustee Griffin, seconded by Trustee Walker, the Board unanimously voted to accept the recommendations of the PPCC Committee to adopt the revised version of the PPCC Charter.

On a motion by Trustee Griffin, seconded by Trustee Walker, 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 Griffin, seconded by Trustee Walker, the Board unanimously voted to reconvene the meeting.

Following a brief discussion, on a motion by Trustee Roy, seconded by Trustee Beardmore, the Board unanimously voted to approve the Fiscal Year 2015 actuarial valuation report as previously presented.

In formal remarks addressing the Board's anticipated vote to set employer rates for the 2018-2019 biennium, Chair Gustafson offered the following introductory comments:

"Today we take up the certification of employer contribution rates for fiscal years 2018 and 2019. These rates take effect July 1, 2017. State law requires that the NHRS Board of Trustees certify actuarially sound rates necessary to fund benefits as they accrue and to amortize the retirement system's unfunded actuarial accrued liability through 2039; the New Hampshire Constitution (Part I, Article 36-a) requires employers to pay those rates in full.

In addition, the Board has a fiduciary obligation to act for the exclusive benefit of plan participants. As we all know, employer rates are increasing this year, largely due to the board's adoption this spring of changes to the actuarial assumptions recommended by our actuary based on the results of a statutorily required five-year experience study. The most significant drivers of the rate increase are

- the reduction of the assumed rate of investment return from 7.75 percent to 7.25 percent,
- the adoption of updated post-retirement mortality assumptions, and
- a reduction in the payroll growth factor.

As Trustees, our fiduciary duty includes adopting actuarially reasonable assumptions. The decision to adopt these assumptions was made after months of review and discussion. Today's vote to certify employer contribution rates is the final step in a lengthy, rigorous, and statutorily required process."

With no further questions or discussion, on a motion by Trustee McCrillis, seconded by Trustee Martins, the Board unanimously voted to approve the Employer Contribution Rates for Fiscal Years 2018 and 2019, based on the Fiscal Year 2015 actuarial valuation.

Following a ten-minute recess, Chair Gustafson and Mr. Lagos introduced Cathie Eitelberg of Segal Consulting, who captioned her presentation as "Myths and Realities of Public Pension Funding in the United States." In her role as Senior Vice President and National Director of the Public Sector Market for Segal, Ms. Eitelberg addressed national trends in public retirement redesign efforts, explaining the background to many reform initiatives and the too-often unacknowledged deleterious outcomes to both employees and pension plans. Her detailed presentation included information

from large and small state retirement plans, legislative efforts across the U.S., as well as risk management tools to monitor pension performance. Following a brief discussion, Chair Gustafson thanked Ms. Eitelberg for her comprehensive and informative presentation.

Chief Legal Counsel Tim Crutchfield began the operation reports section of the agenda by stating that briefing schedules in the McNamara recalculation matter had been set by the Supreme Court. The Plaintiff's brief was due October 8, 2016, and the NHRS response brief was due November 7, 2016. He also reported that Atty. Michael Delaney anticipated an end-of-calendar year date for oral argument in the HB2 Benefits case.

Jack Dianis, *Director of Finance*, began his update with the Dashboard report, noting that changes would be incorporated every quarter. He stated that final figures for FY 2016 would be calculated once all private and real estate investment returns had been received. Mr. Dianis then addressed details in the final FY 16 administrative budget-vs.-actual report, noting that all positive budget variances would roll back into the trust fund.

Following a brief outline of the final NHRS FY 2018-19 statutory administrative budget before the Board, and with no outstanding matters to address, on a motion by Trustee Beardmore, seconded by Trustee Griffin, the Board unanimously voted to approve the budget, as presented.

George Lagos, *Executive Director*, began his update with a review of the KPMs. He noted that fluctuations in market returns in the first quarter of FY 17 would be reflected in the following month and the overall 95% goal might prove more difficult to reach. He stated that a potential RFP for a new pension system platform would be a significant undertaking if pursued. In closing, Mr. Lagos shared statistics from his *Working After Retirement* letter sent via email to 39,000 recipients. He reported that 13,000 of the emails had been opened and he had personally responded to each of the 72 emails and 4 telephone calls received in response to the letter. He stated that the second letter would be sent in early October and would incorporate comments received from the first.

Director of Information Technology Frank Clough opened his report with the co-location site in Marlborough, Massachusetts, stating that it was now fully operational. The site, combined with the PensionGold PG Secure system, assured back-up of all critical NHRS data. He next discussed System security penetration testing that involved a team of hired technicians tasked with trying to break into NHRS secure files to identify weaknesses and vulnerabilities, and which was scheduled for later this month.

Mr. Lagos reported Member Services and Employer Services updates, stating that PensionGold automation efforts for both divisions were moving forward. Mr. Lagos announced that annual member statements would be released by week's end through MyAccount, as well as the mailing of approximately 650 prior-requested paper statements. The electronic statement release would be accomplished through a rolling deployment in anticipation of significant demand on NHRS servers.

Trustee Angwin excused herself at approximately 11:51 a.m.

On a motion by Trustee Martins, seconded by Trustee Kelliher, the Board of Trustees unanimously voted to approve the Consent Agenda, with the exception of Item #5, in the Matter of R.L.

On a motion by Trustee Kelliher, seconded by Trustee Martins, the Board voted to enter into non-public session under RSA 91-A:3, II(c) to discuss disability matters, on a roll call vote, as follows:

Ayes: Trustees Gustafson, Beardmore, Griffin, Hart, Kelliher, Martins, McCrillis, Roy, and Walker.

Nays: None.

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

No votes were taken during the non-public session.

On a motion by Trustee Martins, seconded by Trustee McCrillis, the Board unanimously voted to table Item #5 in the Matter of R.L.

On a motion by Trustee Walker, seconded by Trustee Beardmore, the meeting was adjourned at approximately 12:25 p.m.

Respectfully submitted,
Shannan Hudgins