July 14, 2009
Minutes #449

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman, Donald Pinard called the meeting to order at 8:32 a.m.

Present: Trustees: Chairman, Donald Pinard, Jennie Angell, Richard Molan, Chuck Hungler
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Trustees: Kevin Barry, William Sanders and Mayor Frank Guinta

In Attendance: Attorney John Rich of the McLane Firm

Approval of the Minutes of the Previous Board Meeting:

A motion was made by Trustee Molan to approve the minutes of the June 9, 2009 board meeting, seconded by Trustee Hungler and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

Trustee Hungler made a motion to accept the immediate meeting agenda, seconded by Trustee Molan and passed unanimously by all those trustees present.

Report of the Executive Director:

Federal Withholding Tax Tables for Pensioners Revised - Mr. Fleury reported that since early in the year, it was recognized by many that the federal withholding tax tables associated with the federal economic stimulus plans were resulting in insufficient tax withholding from pensions for retirees who were still working, full or part time. As a result of that situation, pensioners who also have wages in 2009 may find that they owe the government when they file their 2009 tax returns early in 2010. In response to this situation, Mr. Fleury noted that the Internal Revenue Service issued a supplement to Publication 15 for 2009 which contains revised withholding tables that pension plans can opt to implement. Whereas State Street Bank is the agent for MECRS and issues W-4P and 1099R forms annually on behalf of the System, the withholding of MECRS retirees will not be affected by the revised tables in Publication 15 because State Street did not elect to implement it. After discussion, the Trustees concluded that no changes needed to be made to the withholding.

No Corrective Legislation Anticipated for 2010 – Mr. Fleury stated that for the last six years there has been some form of legislation amending or making corrections to the Plan. Financial circumstances have ruled out the likelihood of benefit enhancements while oversights and problematic sections in the existing law appear to have finally been indentified and corrected. As a result, there is no legislative draft in progress for introduction this coming fall.

Actuarial Assumption Study Scope and Cost to be Reported Next Month – Mr. Fleury informed the board that it has been five years since the last review of actuarial assumptions. Industry standards for public plans recommend that such studies be conducted every five years and while the System has no commitment to conduct a study at this time, Mr. Fleury stated that he has requested details on the scope and estimated cost of such a study so that the trustees may consider whether they wish to move in that direction this fall.

Comprehensive Annual Financial Report Ready for Press – Next, Mr. Fleury announced that contrary to the written report in the Board's packet, the MECRS 2008 CAFR has been received from the printer and is scheduled for distribution within a few days.

New England Pension Fund Conference – Mr. Fleury provided the trustees with a verbal recap of the Opal New England Pension Conference that he attended in Rhode Island. Mr. Fleury explained that the conference had been very interesting session and that he accepted an offer as moderator on a panel presentation on credit opportunity investment.

Health Insurance Eligibility Question - Mr. Fleury reported that beginning July 1, 2009, retirees of the State of NH began paying for a portion of health insurance which was previously covered in full by the State. MECRS has a few participants who opted pursuant to Chapter 490 Laws of 1983, to remain in MECRS when the Unified Court System absorbed the Manchester District Court employees into State service. The question has now come up on whether a plan participant who has a subsidy entitlement from MECRS can have that subsidy paid to the State of NH as opposed to the City of Manchester to defray their retiree health insurance costs as their coverage comes from the state and not the city. Mr. Fleury commented further to say that this question has further ramifications which are to complex to address as part of his report so the question had been posed to legal counsel in its entirety. He explained that Attorney John Rich would address this issue later in the meeting.

Mr. Fleury then noted, in the interest of full disclosure, that if it is found that a MECRS subsidy can be paid to the State of NH on behalf of individuals retired from both the state and the city, but who have elected to obtain coverage through the state, that he would be one of the several plan participants affected by such a decision.

No Office Rent Increase for 2009/2010 – Mr. Fleury commented that since office rental costs are indexed to CPI and the CPI for the past year was mildly negative, the MECRS has received written notification from Metropolis Properties that the monthly rent expense will not change for the coming year.

Strategy Session if 2009 Fails to Achieve Earnings Assumption – Mr. Fleury then addressed his concerns regarding other public funds around the country which are exploring plan amendments in order to reduce employer costs. If MECRS does not meet the earnings assumption of 7.5% for a second year in a row, Mr. Fleury was worried that the 18.1% employer contribution rate could become even higher. He explained that he was not anxious to create controversy but he felt obligated to create awareness with the trustees on the possibility of funding increases to the plan should the earnings target not be met. He further explained that the reaction to this situation in other plans has included the consideration of possible prospective benefit reductions or cost shifting to ensure the longer term health and viability of the plan.

Mr. Fleury mentioned a few options available to the trustees to mitigate a further rate increase such a restarting the 5-year smoothing process and reviewing the affects that a future COLA would have on the employer contribution rate. The board agreed to keep a close watch on the situation and discussed the importance of their being involved early in the process should any discussions be commenced by stakeholders with respect to changes to the System's benefit structure.

Status of HB149
In closing his report, Mr. Fleury noted that HB149 has been chaptered as Chapter 151 Law of 2009 and that revised law books will be distributed to the trustees in the coming weeks.

Report of Investment Committee:

Committee Chairman Hungler reported on the Investment Committee Meeting held the previous day. MECRS Investment Consultant, Mr. Kevin Leonard had been present to participate in a conference call with Charles Grant of Lexington Partners and to address concerns about the status of Lexington Fund VII.

Committee Chairman Hungler noted numerous items, one being the lack of information from Lexington Partners regarding MECRS's commitment of $2 million, last August. Also, Mr. Hungler noted two changes in the subscription agreements with Lexington which were made unilaterally but which were determined to have been to the benefit of the System. Committee Chairman Hungler reported that Lexington's primary reason for not moving ahead sooner with funding requests was their assessment that while the secondary market is fairly soft and the discounts are fairly substantial, the feeling is that the discounts will increase further. Mr Grant had suggested that the strategy to draw down the funds at a later time is in the best interest of both Lexington and the System. Committee Chairman Hungler noted that NEPC, the Systems Investment Consultant continues to recommend investment with Lexington Partners.

Chairman Pinard asked Attorney Rich for his assessment of the funding delay with Lexington Partners.

Attorney Rich noted the importance of the System's capital being invested appropriately in the best opportunities and noted NEPC's strong recommendation of Lexington Partners as the best choice in a pool of three private equity investment mangers that were interviewed by the Board of Trustees when Lexington was hired.

Committee Chairman Hungler expressed his concern about retaining cash reserves to fund the entire Lexington commitment until such time as a draw down is requested and he asked NEPC to inquire about short-term cash investment alternatives which could provide a better than usual return with minimal risk and unrestricted liquidity.

Committee Chairman Hungler then reviewed the preliminary May 'Flash Report" included in the trustee's agenda packet and began a manger by manager review against each manager's benchmark. It was noted that in the case of the large cap domestic equity managers, both State Street Global Advisors and Cadence Capital Management were trailing their benchmarks for both the month and year to date. He stated that it was the recommendation of NEPC and the Investment Committee that both managers be called in to appear before the full MECRS Board so that they could provide an explanation of their performance and to provide fresh expectations for the coming quarters.

As part of his report, Committee Chairman Hungler referred to a New Business Agenda Item, in which the Executive Director was recommending that the Board support adding certain protective language to all future investment contracts. He stated that the revision would seek to prohibit changes to signed subscription agreements without advanced written notification and would prohibit changes from being implemented without obtaining the written concurrence of MECRS.

Committee Chairman Hungler reported that the Investment Committee had reviewed the suggested language and voted to recommend it to the full Board. He therefore introduced a motion accordingly to have Mr. Fleury move ahead with requesting the protective language in all future investment manager contracts and subscription agreements subject to review by counsel. The motion was seconded by Trustee Molan and passed unanimously by all those trustees present.

In concluding his report, Committee Chairman Hungler reported that the next tentatively scheduled meeting of the MECRS Investment Committee would be August 10, at 8:30 at the Retirement Systems Office, where, among other topics, investment strategies for Private Equity Funds will be discussed.

Mr. Fleury interjected that by no later than September, a detailed cash flow report should be ready for review. He explained that many of the System's investment managers now have lock up periods or redemption restriction which compromise liquidity and which could cause problems with the systems asset allocation plans. The model he is drafting of a formal Cash Flow Statement would provide an important tool for matching the availability of cash with investment commitments made by the Board. His objective was to have the tool ready when the Board considered Private Equity Fund of Funds Managers with a focus on Mezzanine Funds being recommended by NEPC.

Previous Business:

Acceptance of the Required Audit Communications and Financial Statements from Berry, Dunn, McNeil & Parker - Trustee Angell moved to accept the Audit Communications and Financial Statements for 2008, seconded by Trustee Molan.

Trustee Hungler asked about the requested clarification of the observation regarding COLA costs and the resulting future accrued liability of $469,373 shown on page 14 of the System's 2008 Financial Statements.

Mr. Fleury reported that the amount of the future liability cited in the Financial Statements had been confirmed with the actuary and it was found to be valid so it had not been amended.

Chairman Pinard expressed his concern that the observation does not speak to the pre-funded portion of the COLA award and leads the reader to conclude that the entire COLA resulted in an increased future liability of $469,373 rather than just the ½% which was granted above the prefunded level.

Mr. Fleury then confirmed that the misinterpretation stems from the inaccurate assumption that $469,373 is the entire cost of the 2% COLA. In fact, the $469,373 is the cost of the COLA over and above an amount which was satisfied by pre funding and the additional liability of this one COLA will therefore be amortized over 25 years.

After brief discussion and in the interests of setting the record straight, it was agreed that rather than amending the minutes of the June Trustees meeting or the audited Financial Statements, that clarification on the issue would be incorporated in July minutes.

Chairman Pinard called for a vote of the motion on the floor to accept the Audit Communications and Financial Statements for 2008. The motion passed by unanimous vote of all those trustees present.

Consent Agenda:

It was moved by Trustee Hungler to approve the Consent Agenda but to remove item #6 Requests for Pension, seconded by Trustee Molan and passed unanimously by all those trustees present.

Regarding Consent Item #6, Trustee Hungler inquired whether it would make sense to pay retirees with very small monthly pensions on an annual basis instead and whether it would result in a cost savings to the Plan if that could be done.

Mr. Fleury informed the board that there is no provision in the statute to offer such an option and that saving would only amount to somewhere in the vicinity of $7 per year per affected retiree.

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Trustee Angell then inquired about two vested, deferred member's request for pension appearing in Item #6, which included retroactive amounts.

Mr. Fleury explained that these were two isolated cases which correct an oversight by the System. He further explained that it is the practice of the System when a member becomes eligible for a retirement benefit to notify that member and process their retirement accordingly. Staff had recently become aware that two vested deferred members with 20 or more years of service should have been notified upon reaching the age of 55 that they could start collecting a retirement benefit, subject to an early retirement deduction. When it was discovered that this had not happened, the members were contracted and informed that they were immediately eligible. The members subsequently requested retroactive payment because they had not been notified in timely fashion and there requests had been honored based upon precedent.

It was then moved by Trustee Hungler to approve Consent Agenda Item #6, seconded by Trustee Angell and passed unanimously by all those trustees present.

Due to Trustee Molan's need to depart the meeting owing to a schedule conflict and pursuant to Article 10.2 of the MECRS By-Laws, the meeting adjourned at 9:35

The next meeting of the MECRS Board is tentatively scheduled for Tuesday, August 11, 2009 at 8:30 am at the MECRS offices at 1045 Elm Street, Suite 403.

Respectfully Submitted,

Gerard E. Fleury
Executive Director