

May 8, 2012  
Minutes #481

**Minutes of the Board of Trustees' Meeting -1-**

**Call to Order:** Chairman Pinard called the meeting to order at 8:34 a.m.

**Present:** Trustees: Chairman Donald Pinard, Michael Woitkowski, Richard Molan, William Sanders, and Dianne Mercier.

MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

**Absent:** Paul Porter and Mayor Gatsas

**In Attendance:** Attorney John Rich of the McLane Law Firm  
System Participants: Colleen Driscoll, Pauline Corriveau, Hugh Mallett and Mike Roche arrived at 8:39 a.m.

**Approval of the Minutes of the Previous Board Meeting:**

A motion was made by Trustee Sanders to approve the minutes of April 10, 2012, seconded by Trustee Molan and passed unanimously by all those trustees present.

**Approval of the Minutes of the Special Board Meeting:**

A motion was made by Trustee Molan to approve the Special Board Meeting Minutes of March 28, 2012, seconded by Trustee Sanders and passed unanimously by all those trustees present.

**Approval of the Immediate Meeting Agenda:**

A motion was made by Trustee Molan to approve the immediate meeting agenda, seconded by Trustee Sanders, and passed unanimously by all those trustees present.

**Citizens Comments:**

Chairman Pinard addressed the citizens present for the meeting and inquired whether there were any comments or questions regarding any items on the agenda. Plan Participant Michael Roche responded, "Not at this time".

**Executive Director's Comments:**

Field Work for 2011 Audit Now Complete - Mr. Fleury reported that auditors from Berry, Dunn completed field work for the 2011 audit in mid April. They are in the process of pursuing confirmations from some of our managers and need to reflect upon the final version of the actuarial valuation and complete their review of financial statements included on the draft Comprehensive Annual Financial Report before formulating their opinion. He noted that the

**Minutes of the Board of Trustees' Meeting -2-**

board may expect to see the auditors at either the June or July board meetings at which time the opinion will be presented.

Future Challenge to Financial Reporting – Mr. Fleury expressed his concern regarding the new Government Accounting Standards Board, (GASB) requirements used by governmental pension plans which will most likely have some effect on MECRS. The draft disclosure statement on GASB 27 alone is 187 pages long and gives a good example of the challenges associated with ongoing compliance.

As an example, GASB 27 is expected to call for a 10 year history inclusive of actuarial data which is likely unavailable for the earlier periods. He noted that the board is apt to hear more on this subject from its actuary and auditors and the budget for 2013 will likely need to be higher in those areas as a result of implementation of revised standards.

Monthly Financial Statement Format will Expand - In closing his report Mr. Fleury reported that due to the growth in the Additional Contribution Program, member contributions will soon be broken out between defined benefits and additional contributions. Likewise, benefits to participants will be divided between annuities attributed to the defined benefit and those attributed to additional contributions. These amounts have been reported separately to the actuary since the inception of the additional contribution program but have not yet been transparent on the financial statement until now.

**Previous Business:**

Quote from Gabriel, Roeder, Smith & Co. – Chairman Pinard referred to a handout distributed to the trustees at the beginning of the meeting, regarding the proposal for additional services from the system's actuary and asked Mr. Fleury to explain.

Mr. Fleury recapped the previous meeting of March 28, 2012 where the board requested that MECRS's Actuary, GRS & Co., provide a fee quote for a 5-year experience study. The proposal submitted included a 4 part plan, each with a dollar value attributed to it. Mr. Fleury informed the board that he had asked the actuary to also provide results from another public fund that had requested similar extensions to an experience study and to share a summary of those results so that the board could have an idea of what the deliverable would look like.

Mr. Fleury explained that the board was clear in its desire to have the deliverable focus on identifying possible outcomes and to expand the scope of actions needed to achieve those outcomes to those normally beyond the boards' control. As examples, they expect the study to go beyond confirming the Plan's present funded status and general direction and to provide target outcomes which will result in improvements to the Plan's funded status, the reduction/elimination of unfunded liability, and a transition toward a liability driven model. The study's results should, therefore, include action plans to move the System over a prescribed timeline to a funded status in the area of 80 to 85 percent.

May 8, 2012  
Minutes #481

**Minutes of the Board of Trustees' Meeting -3-**

Mr. Fleury opened discussion on items 1-4 of the proposal and asked the trustees to review and discuss each of those services.

Trustee Mercier commented that after her review of GRS's proposal, she thought that the additional services #2 , conducting a 5-year Experience Study and #3 deriving projections under the proposed demographic assumption and each of the 4 alternative economic assumptions presented in the Experience Study, would produce the best results in the board's plan in moving the System to a funded status in the area of 80% to 85% over a prescribed time.

Trustee Sanders commented on the importance of the Experience Study and agreed with Trustee Mercier, that items #2 and #3 of the proposal are the services for which the board should review and act upon.

Trustee Mercier stated that she is uncomfortable with the proposed estimated travel expenses for additional meetings in Manchester, under item #3, at a cost of \$4,000 to \$6,000 per meeting in Manchester.

Mr. Fleury responded that he will be sure that the contract is written with the, not to exceed dollar amount for travel expenses, and he also suggested that the board may be able to conduct needed conference calls with GRS in an effort to defray the costs.

It was moved by Trustee Molan to proceed with a contract agreement for additional services items #2 and #3 of the proposal, including a maximum cost, not to exceed \$47,000, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Trustee Sanders asked Mr. Fleury if the Mayor's, Sustainable Benefits Committee has contracted the services of GRS, to which Mr. Fleury responded, that such had not been the case when he last spoke to GRS regarding the matter.

Non-Public Session Pursuant to RSA 91-A:3 II(d) For Discussion of Contract Negotiations -  
Chairman Pinard then entertained a motion to go into Executive Session pursuant to RSA 91-A:3 II(d) at 8:45a.m.(Consideration of the acquisition , sale, or lease of real or personal property which, if discussed in public, would likely benefit a party or parties whose interests are adverse to those of the general community.)

Roll Call Vote:

Ayes: Messrs. Sanders, Woitkowski, Pinard, Mercier, Molan

Nays: None

**Minutes of the Board of Trustees' Meeting -4**

Following the conclusion of the Non-Public Session, Chairman Pinard then entertained a motion to seal the minutes of executive session pursuant to RSA 9-A:3 III.

Trustee Molan moved to seal the minutes of executive session, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Status Report From Attorney Rich on Levels and Adequacy of Insurance Coverage – Attorney Rich stated that pursuant to discussion at the April 20, 2012, MECRS board meeting, the board requested that counsel review the legal issues and potential liability exposure of trustees as fiduciaries of the System. He then distributed a hand-out entitled Report on Fiduciary Liability Related Issues, and summarized seven issues that could be examined in connection with the board's request.

Attorney Rich identified seven tasks that the board should consider and he also suggested comparing the Systems enabling legislation with other statutory protections, such as those which apply to volunteer boards and what public employees have as their daily roles as employees.

Attorney Rich recommended the review of NH case law in conjunction with those statutes. Subsequent to that review, the board may want to fine-tune two existing sections of the MECRS statutes which provide for payment of legal fees and expenses associated with System litigation and with indemnities if the System or the trustee's are held accountable for certain actions.

Next, Attorney Rich stated that the System may want to adopt a policy covering and defining certain indemnification and/or advancement of expenses for Trustees (and former Trustees). In addition, he suggested that similar to an indemnification policy, the board could consider the terms and conditions of an indemnification agreement between the System and individual trustees. Such an agreement could provide Trustees with certain indemnification rights in exchange for serving on the board.

Trustee Mercier asked Attorney Rich if such an indemnification agreement would remain effective regardless of how statutes might change in the future. As an example, Trustee Mercier asked, if the statute changed in 10 years, would the trustees no longer be indemnified for the time they actually served on the MECRS Board.

Attorney Rich responded that the indemnification agreement would act as a contract which would be in effect at that time. As to whether it could be guaranteed to continue in the event of a statutory change is a question which would have to be reviewed.

Referring to the last two items on the report, Attorney Rich suggested that a review of the Systems' Administrative Rules and By-Laws should be undertaken for consistency and completeness purposes. The board could also review the existing Fiduciary Liability Policy to

**Minutes of the Board of Trustees' Meeting -5-**

identify issues or potential gaps in the coverage's and provide recommendation on best practices as well as to further examine the option of tail risk coverage.

Trustee Sanders asked Attorney Rich what the timeline would be as far as completing the review of the selected issues and reporting back to the board.

Attorney Rich stated that the review of the first four issues and a draft Indemnification Policy could be submitted to the A&A Committee meeting for their review and consideration.

Trustee Sanders asked, if a new indemnification policy was implemented could it apply to all the trustees prior to the adoption of the new policy to which Attorney Rich responded, yes with respect to any indemnification policy, it would apply to all former, present and future trustees.

In the interest of controlling the MECRS budget, Mr. Fleury inquired as to the legal fees associated with the insurance task, to which Attorney Rich responded that the City Solicitor's office may have information with respect to the City employees which may be of value and can be used, which would help to minimize the cost of the project. Attorney Rich estimated that the cost would be less than half of the expenditure associated with the agreement they had just authorized with GRS.

After further discussion regarding the Indemnification Policy, Trustee Sanders moved to have legal counsel examine the first four issues of Attorney Rich's report, and to submit their recommendation to the next A&A Committee meeting, seconded by Trustee Molan and passed by all those trustees present.

**Tabled Items:**

Administrative Rule Part 7 Cost of Living Adjustment - Trustee Molan moved to remove Admin. Rule Part 7 from the table, seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

Trustee Molan then moved to authorize Mr. Fleury to release the Rule for a 30-day period of public comment.

Trustee Mercier asked for clarification on the change to Admin. Rule 7 to which Mr. Fleury responded that the current rule states how inflation is measured. The proposed amendment to Rule 7 states that in addition to the way inflation is measured, the Rule will revise the measures of affordability.

Trustee Mercier questioned past COLA considerations and if mathematical formulas were used in measuring both affordability and inflation.

**Minutes of the Board of Trustees' Meeting -6-**

Mr. Fleury explained that there is a mathematical formula for inflation based upon US Labor Department measurements, but that for affordability any number of criteria needs to be met.

Trustee Mercier asked if some sort of grid which outlines the criteria for future COLA considerations, will be used to clearly define the trustees rationale.

Mr. Fleury responded, yes, and that the formula finds its roots out of the most recent valuation.

Attorney Rich noted that a grid is a great tool to show where the different guidelines are met or not met. The Admin Rule was written in a fashion to help the trustees to understand their fiduciary responsibilities with respect to COLAs and he encouraged all the trustees, to review the amendments prior to the meeting when it would be considered.

Attorney Rich also reminded the board that in conjunction with adopting the Rule in final form, they need to vote on the target rate of return, as it is not presently set in the draft version.

Trustee Sanders seconded the motion, which passed unanimously by all those trustees present.

**Consent Agenda:**

Chairman Pinard asked if any of the trustees wished to remove anything from the Consent Agenda.

Referring to Item #2 of the Consent Agenda, Budget and Expenses, Trustee Mercier asked Mr. Fleury to explain the legal, investment related line item in the amount of \$43,000 and investment consultant line item in the amount of \$31,000.

Mr. Fleury explained that there are legal fees incurred by the System that are not part of an administrative budget due to the fact that they are unpredictable expenses. Such items are charges against the related investments. For example, if new managers are hired, it is difficult to know the cost of legal fees for an analysis of those contracts because they can vary depending upon the complexity of the particular subscription agreement. Therefore, any legal fees incurred that are investment related are direct charges against the trust and do not appear in the administrative budget.

Referring to the investment consultant line item, Trustee Mercier inquired if that amount was budgeted.

Mr. Fleury replied that the investment consultant line item is basically a fixed amount; however, it may vary from time to time. Because it is related to investments it is not seen as an administrative expense.

The trustees continued to discuss the budget process and the rationale of various line items.

May 8, 2012  
Minutes #481

**Minutes of the Board of Trustees' Meeting -7-**

It was then moved by Trustee Molan to approve the Consent Agenda, seconded by Trustee Mercier and passed unanimously by all those trustees present.

**New Business:**

Schedule of Investment Committee Meeting for the Purpose of Interviewing GAA Managers -  
After brief discussion by the board, the trustees agreed to schedule the next Investment Committee Meeting on June 12, 2012, immediately following the adjournment of the regular monthly board meeting.

NEPC work plan for 2012 recommends a fiduciary session on risk parity and liability driven investments for the July or August board meeting. After brief discussion, the trustees agreed to schedule the fiduciary session on risk parity and liability driven investments at the August Board of Trustees Meeting.

**Other Business:**

Referring to the April BOT Meeting, Trustee Woitkowski questioned the status of the concerns regarding the City's \$13,000 retirement incentive package offered to employees.

Mr. Fleury reported that after a review of the issues, the statute states that salary, which is subject to final average earnings, includes sick and vacation time, regular wages, and other amounts determined by the board.

Attorney Rich noted that the statute reads that the retirement benefit is based on all wages and earnings from the City. The provision says that this is a severance benefit attributable to the employee service with the City, therefore, it is in recognition of all of their service with the City and under the formula, it counts.

Mr. Fleury brought up the issue of the question of whether or not the trustees will grant a retiree COLA. The time table in which the COLA is granted will decide if there needs to be a retro payment to the participants. Normal practice is to have COLA increase effective July 1<sup>st</sup> of the current year, however, the trustees could make it effective at a later date.

Trustee Mercier then asked if the new Administrative Rule will be used in making the COLA decision.

Mr. Fleury responded that the trustees may take into consideration the proposed amended guidelines in making their decision.

Trustee Sanders commented that he would feel more comfortable having the new adopted Administrative Rule 7 in place before making the COLA decision.

May 8, 2012  
Minutes #481

**Minutes of the Board of Trustees' Meeting -8-**

Committee Chairman Woitkowski suggested having an A&A Committee meeting regarding COLA discussion and scheduled a meeting for Wednesday, June 6, 2012 at 9:00 a.m.

Trustee Woitkowski asked about the three participants recently retired and the inclusion of the \$13,000 stipend to which Trustee Sanders replied that they will receive their retirement benefit inclusive of the stipend.

**Motion to Adjourn:**

Having completed all of the items of business for the day, Chairman Pinard entertained a motion to adjourn. Trustee Molan moved to adjourn at 9:47 a.m., seconded by Trustee Woitkowski, and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury  
Executive Director