

March 11, 2014  
Minutes #500

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

**Call to Order:** Chairman Pinard called the meeting to order at 8:30 a.m.

**Present:** Trustees: Donald Pinard, Bob Lynch, Mike Woitkowski, Dianne Mercier and Richard Molan arrived at 8:35 a.m.  
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

**Absent:** Mayor Gatsas and Bill Sanders

**In Attendance:** Representatives Kevin Leonard of New England Pension Consultants, Attorney John Rich of the McLane Law Firm and Ken Alberts of Gabriel, Roeder, Smith & Co. Also in attendance was Guy Beloin of the Manchester Finance Department

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

Chairman Pinard entertained a motion to approve the minutes of the previous meeting. Trustee Lynch moved to approve the board minutes of January 14, 2014, seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

**Approval of the Immediate Meeting Agenda:**

It was then moved by Trustee Woitkowski to approve the immediate meeting agenda, seconded by Trustee Lynch, and passed unanimously by all those trustees present.

**New Business:**

Review of the Results of the 2014 Actuarial Valuation – Mr. Ken Alberts of Gabriel, Roeder, Smith & Co. was present to deliver the results of the 2013 valuation and explain options open to the trustees with respect to assumptions and the employer contribution rate.

Mr. Alberts referred to page 7 of the preliminary results for the actuarial valuation report, which was distributed to the trustees at the start of the meeting. He reported that the MECRS portfolio had a great year, almost doubling the expected return, based on the assumed rate of return of 7.25%. He further explained that differences between actual and assumed investment income, are phased in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, the funding value of assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, the funding value of assets will tend to be greater than market value. Mr. Alberts noted that the funding value of assets is unbiased with respect to market value. He reported that the total recognized investment gain is \$3.4 million, which is a very small change from expectations.

March 11, 2014  
Minutes #500

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

Mr. Alberts indicated that actual experience will never (except by coincidence) match exactly with assumed experience. Gains and losses often cancel each other over a period of years, but sizable year-to-year fluctuations are common. He then provided details on the derivations of the experience gain (loss) for 2013, working from a year-by-year comparative schedule.

Moving on, Mr. Alberts addressed the contribution rate reconciliation chart, noting last year's employer contribution rate of 20.6%. He listed the three factors which drove the contribution rate up as: COLA, Chapter 159 Upgrades, and experience gains and losses. He summarized how they had transpired, which resulted in an increased employer contribution rate to the new level of 21.13%.

Mr. Alberts reported that gains and losses occurring during the year ended December 31, 2013 were offsetting. Investment gains (7.25% assumed versus 9.2% recognized) were offset by liability losses, due to pay increases (average pays for members with higher liabilities increased more than assumed) and reserve transfers (benefits for members who actually retired were greater than expected). Overall, Mr. Alberts reported, the pension funding status increased from 61.6% to 63.5%.

Trustee Mercier asked Mr. Alberts to elaborate on the note on page 7 of the valuation, regarding the effect of the ad-hoc COLA and the assumption rate.

Mr. Alberts explained that the note is included in the valuation each year, and is provided as an impact barometer in the event that the board grants a COLA, which is different from the assumed COLA rate of 1.5%. He then explained that each 1% of ad-hoc COLA above the assumed rate, generates an increase in the liabilities of \$1.2 million and the employer contribution rate will increase by approximately 0.14% (based on current payroll and a 26-year amortization period). In developing these costs for any ad-hoc COLA increase, it was assumed that the increase would be a one-time permanent increase to all members retired as of 12/31/2013 and the additional liability would be amortized over 26 years.

Mr. Fleury felt the importance of mentioning that the Labor Department released its final CPI numbers for 2013 and the inflation factor is exactly 1.5% for 2013. He suggested that while the actuary is in attendance, it would be an opportune time for the trustees to address any concerns, regarding the annual COLA decision.

The trustees continued to discuss COLA variations and the impact that each variation would have on the contribution rate, as well as the projected payroll amount of \$55.7 million.

Trustee Mercier then asked Mr. Alberts to state the funded status for the pension plan last year, to which Mr. Alberts responded that the level last year was 61.6% versus the current 63.5% for pension benefits. For health benefits the ratio rose from 41.4% to 45.3%. He also noted that

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

both the pension unfunded actuarial accrued liability (UAAL) of \$102,370,698 and the health subsidy UAAL of \$9,834,211 is amortized over a 26-year period.

Chairman Pinard called upon Mr. Guy Beloin from the City Finance Department, and asked if he thought the projected payroll amount was in line for fiscal year, July 1, 2014 – July 1, 2015.

Mr. Beloin confirmed the departments which make up the projected payroll and stated that the projected amount appeared to be reasonable and in line with the City's general fund salary.

It was moved by Trustee Mercier to authorize the preliminary valuation and to direct Mr. Alberts to submit the final version of the 2013 valuation, seconded by Trustee Lynch and passed unanimously by all those trustees present.

Change in Mortality Rates - Mr. Fleury asked Mr. Alberts to address the use of morality factors, how they are applied against the different retirement option calculations and additional contribution calculations, and the possible need to update the assumptions currently in use.

Mr. Alberts responded that the member pays for the retirement options by electing a reduced retirement benefit over their lifetime and those calculations are based on an interest rate and a mortality table. The current MECRS interest rate and mortality tables were established prior to GRS being hired. Since that time, Mr. Alberts reported that the mortality tables in the valuation have been updated twice. The concern now, Mr. Alberts stated, is that the tables may need to be aligned.

Mr. Alberts explained that if the assumptions are updated, it is reflected in the cost of providing those options. It would be more expensive to provide the survivor benefits, due to lowering the interest rate assumption and increasing the longevity assumption.

Mr. Alberts explained that should the board choose to leave the current tables in place, there may be a need to recognize the fact that there is a subsidy, in the form of a higher than funded additional benefit given to the members. Mr. Alberts also stated that if the trustees elect not to update the current tables, an experience study would need to be conducted to adjust the liabilities going forward.

The board continued to discuss the impact and the timing of adopting new assumption tables, prospectively.

Chairman Pinard noted for clarity that it is not the calculations that are changing; it is the tables that are used in calculating those benefit results when survivor options are elected.

Attorney Rich asked Mr. Alberts to clarify his earlier comments, regarding the potential subsidy to the member, if the tables were not updated. Mr. Alberts explained that the tables evolve over

March 11, 2014  
Minutes #500

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

time and the assumptions used in the valuation are updated on a regular basis, however, GRS does not have a procedure in place to review and update those factors.

Mr. Fleury expressed his administrative concern for the timing of the adoption of revised tables as well as the fiscal impact on optional member benefits.

Mr. Alberts stated that currently the difference between the two tables is not that significant, however, he is more concerned that over time, that difference will continue to spread. Mr. Alberts reiterated his earlier statement, if the board should decide to change the factors, there will not be an impact on future valuations. If the board votes not to change the factors, then it will impact the amount of the liabilities for future valuations.

Mr. Alberts then recommended that the board consider reviewing the tables and the results that will occur in the assumptions over time, should the trustees decide not to align the tables. The results of such a review would be available within a few months.

Chairman Pinard questioned what affect a change in the mortality rates might have on the preliminary valuation, to which Mr. Alberts responded that he is unable to make that determination at this time.

Mr. Fleury refreshed the board's memory and stated that pursuant to the current GRS contract for 2014, the trustees may request two limited analysis from GRS, at no additional cost to the System. That observation was confirmed by Mr. Alberts.

After brief discussion, the trustees directed Mr. Alberts to complete and submit an experience study on the impact of using the adjusted tables on the valuation assumptions.

With respect to utilizing the adjusted tables, Mr. Fleury voiced his concerns, regarding the impact on calculation results of the 2013 additional contributions and how they would differ slightly with those done after January of 2014 if the factors were changed. He noted that additional contribution calculations, using the new factors would result in a slightly reduced benefit. Mr. Fleury explained that as more members buy their service upgrade to the 2% level, more participants are enrolling in the additional contribution program. Calculations for members who have been in the additional contribution program since prior to 2014 and are approaching retirement, are calculated using the 2013 formula, and new members requesting additional contribution calculations, are receiving calculations using the 2014 formula. Mr. Fleury requested guidance on whether this is an actuarial sound process.

Mr. Alberts stated that when the additional contribution program was implemented, GRS provided an option to annuitize their contributions. From the GRS prospective, the disclaimers were clear that this was not a guarantee. It was recommended to the member that they revisit the calculation due to changes that occur while making those additional contribution payments. Mr.

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

Alberts stated that he is in agreement with Mr. Fleury's process in administering the additional contribution program.

Mr. Alberts thanked the board for their time and departed.

Recommendation From Rebalancing Between Existing Managers as Provided by NEPC - Mr. Kevin Leonard referred to handouts distributed to the board. He reported that pursuant to a recommendation from NEPC, based upon December 31, 2013 ending asset balances, that MECRS take gains out of their global equity portfolio and rebalance into the investment categories that are underweighted.

Mr. Leonard began by breaking down the \$6.5 million recommended redemption from domestic equity, taking the bulk amount of \$4 million from Sands and \$2.5 million from Rothschild. Additional allocations would be invested in City of London emerging markets, in the amount of \$2 million, \$1 million into Loomis Sayles, a \$500,000 contribution into fixed income with Permal, and finally, a \$3 million contribution to Standish. Mr. Leonard also included an additional reallocation of \$2.5 million from cash, with that entire amount allocated to the Prudential real estate composite.

Mr. Leonard noted that these adjustments are needed to remain within the parameters of the target levels in the MECRS asset allocation model, and in recognition of anticipated future returns in respective market sectors.

It was moved by Trustee Molan to accept the recommendation by NEPC to reallocate \$9 million of the MECRS portfolio as stated by Mr. Leonard, seconded by Trustee Woitkowski and passed by all those trustees present.

Changing the emphasis of his presentation to future actions, Mr. Leonard reminded the board that some months earlier, they had begun the process of contracting with JP Morgan, as a Private Equity Manager and, for prudent reasons, that commitment was taken off the table. He noted that the MECRS investment policy continued to have a target allocation to private equity of 5.0% which needs to be satisfied and, in the wake of the abandonment of the JP Morgan proposal, other managers should be considered.

Mr. Leonard distributed booklets on Landmark Equity Partners, Private Advisors, Lexington Partners as well as a Private Equity Program Review 2014. He stated that NEPC's recommendation is for MECRS to consider a \$4 million allocation to a vintage year 2014 fund, which is in addition to the \$5 million commitment to secondaries, not fulfilled when JP Morgan ceased to be considered.

Mr. Leonard noted MECRS's current allocation with Lexington Fund VII and stated that Lexington is forming Lexington Capital Partners VIII, L.P. to continue their strategy of acquiring interests in global private investment funds through negotiated secondary market

March 11, 2014  
Minutes #500

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

purchases. NEPC is recommending that the trustees review this option as well as considering Landmark Equity Partners XV. Mr. Leonard reported that NEPC is also recommending \$4 million to fund of funds contribution with Private Advisors Small Co. Buyout Fund VI.

Mr. Leonard noted the investment thesis is that the Private Equity Program will invest in various private equity strategies with the expectation that the program will achieve returns in excess of the public market returns. Mr. Leonard then provided a brief summary of the three managers.

After a review of Private Equity strategies, investment styles, economic conditions and return expectations, the trustees agreed to schedule an Investment Committee meeting on April 7, 2014, and to conduct manager interviews with two of the three prospective managers, Lexington Partners and Private Advisors. The committee will formulate a recommendation based on the interviews, to be presented to the MECRS full board the following day for ratification.

MECRS Right-to-Know Issues Associated with Private Investments - Mr. Fleury first explained that when the MECRS explores the possibility of investing in private funds and other investment vehicles, it must be certain that it can satisfy its responsibility to comply with the NH Right-to-Know law, NH RSA 91-A. Mr. Fleury referred to the draft policy, Right-to-Know Issues, included in the agenda packet, which was developed by staff and refined by counsel, for the board's approval and subsequent implementation. In the past, the inabilities of the private fund and MECRS to reach an agreement as to the disclosure requirements under the NH Right-to-Know law have precluded an investment by MECRS.

Mr. Fleury further noted that in cases when a private investment manager is seeking an investment from MECRS, recognitions of the full extent of the disclosure requirements under the NH Right-to-Know law should exist as a first step, in order to avoid the unnecessary expenditure of time and expense which might otherwise follow.

Attorney Rich asked Mr. Leonard if he thought prospective managers might not be in agreement with the Policy to the extent that it might affect their willingness to show interest in having MECRS as an investor. His concern was that the policy may restrict investment opportunities otherwise seen as desirable by the investment advisor.

Mr. Leonard responded that he would rather present the Policy to the prospective managers upfront, rather than proceeding with the investment, only to later find out that the manager is not interested in doing business the MECRS.

It was moved by Trustee Woitkowski to implement the DRAFT, Right-to-Know Policy statements, seconded by Trustee Molan and passed unanimously by all those trustees present.

Mr. Leonard thanked the board for their time and departed.

March 11, 2014  
Minutes #500

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

Request For A Motion – Executive Director is Seeking Permission to Allocate \$3,000.000 in Excess Cash to the S&P Index Fund - It was moved by Trustee Molan to grant permission to the

Executive Director to reallocate \$3 million in excess cash to the S&P Index Fund, seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

Request for Motion – The Executive Director is Requesting Transfers in the Budget Lines for 2013 to Balance Accounts Which Were Over Budget Against Accounts Which Carried a Surplus-- Trustee Lynch asked Mr. Fleury for details regarding the transfer, to which Mr. Fleury referred to the agenda packet item, New Business 6, detailing the areas of surplus to areas where expenses have exceeded expected and budgeted amount in 2013. Mr. Fleury noted that all of the transfer net to \$1,500.22. There being no further questions, Trustee Woitkoski moved to accept the requested transfer in the budget lines for 2013, seconded by Trustee Molan and passed unanimously by all those trustees present.

**February & March Consent Agenda:**

Chairman Pinard entertained a motion to approve the February and March Consent Agenda items. Trustee Molan moved to approve the Consent Agenda, seconded by Trustee Lynch and passed unanimously by all those trustees present.

**Previous Business:**

Follow Up Report on Death Audits - Mr. Fleury stated that pursuant to the boards' directive from the meeting on January 14, 2014, the Executive Director has submitted a recommendation to address concerns related to the frequency of death audits.

For the initial report, Mr. Fleury informed the trustees that real time notification services were investigated and several contacts were made with the LexisNexis firm, including a conference call with technical staff from that firm. One important clarification resulting from these contacts, was the discovery that the original price quoted by Lexis Nexis was incorrect. An annual fee of \$250 turned out to be a monthly fee for that amount. The process would involve creation of an initial recipient client file and then require monthly updates as new retirees were added along with beneficiaries in receipt of the benefit, when a retiree with a survivor option passes away.

Mr. Fleury reminded the trustees that for calendar year 2014, the Board requested and received a budget with essentially a zero increase in spending. He informed the board that an additional \$1,000 expenditure is not affordable without increasing the annual appropriation for operations and that he is suggesting that the board may want to consider doubling the number of audits from two per year to four. Such a move would be affordable, would double the probability of

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

detecting an otherwise unreported death to prevent overpayment, and in this particular case, would have detected the case which prompted this study.

Mr. Fleury concluded that it is his administrative recommendation that if the Board wishes to expend further funds to tighten the existing controls, it authorize the expansion of checks by

State Street Retiree Services from twice per year to quarterly for an additional cost of \$200 per year.

It was moved by Chairman Pinard to change the existing death audit controls from semi-annually to quarterly, seconded by Trustee Lynch and passed unanimously by all those trustees present.

**Report of the Executive Director:**

Update on Recovery of Overpayment: Mr. Fleury first updated the board on the pending recovery efforts underway on payments made to a deceased member. MECRS filed a claim in Manchester District Court on November 27<sup>th</sup> and was notified that a hearing date has been set for Friday, February 21, 2014 at 8:30 AM for mandatory mediation. At that meeting, Mr. Fleury reported that no resolution was reached and so the Court will notify MECRS of a hearing date, now estimated to be sometime in May.

Legislative Update: Mr. Fleury reported that SB 225 met with Senate approval on January 15, 2014. The Senate committee questioned the use of the word "must" which was chosen by legislative services when they prepared LSR 2014-S-2639-R. The bill as amended will pass to the House once it is voted in the Senate. At present the bill is listed as "Ought to pass".

Status on Redemption of Investment with Benchmark: Next, Mr. Fleury informed the board that their decision to terminate investments with Benchmark almost a year ago is proceeding on schedule. After having received partial distributions at the end of the second and third quarters of 2013, the bulk of the redemption occurred on Friday, January 31<sup>st</sup> in the amount of \$3,598,600. This leaves a contractual holdback amount which should be received this summer, plus a distribution in kind which should liquidate by the end of 2014.

Status on Custodial Services : Mr. Fleury updated the trustees on a meeting that was held on January 28<sup>th</sup> with Anthony Tiberio of State Street Bank regarding MECRS's service issues. Mr. Fleury stated that he was pleased to report that promising progress was made on several key issues. If the initiatives planned at that meeting are delivered as promised, custodial services going forward should become satisfactory. Scheduled for implementation is a new feature to the "My State Street" application, which will allow real time access to account balances and a mechanism for electronic deposits of checks, in order to address repeated concerns identified by auditors. Also, Mr. Fleury stated that a host of issues associated with bank errors or oversight were discussed and it appears that State Street is aware of these issues and is addressing them in a manner which should prove satisfactory to us as a customer. Mr. Fleury stated that while the implementation of the promised enhancements is still critical to a satisfactory level of service, administration is recommending delaying any further plans to change custodians.



March 11, 2014  
Minutes #500

**Minutes of the Board of Trustees' Meeting -9-**

Inflation Figure from US Dept. of Labor: As was mentioned earlier in the meeting, Mr. Fleury commented that inflation figures from the US Dept. of Labor became available in mid January. The inflation rate for 2013, as measured by the Department of Labor, and using the formula in the administrative rules, equates to 1.5%.

Request to Attend Public Funds Summit: Concluding his report, Mr. Fleury notified the trustees that each year since he has been with MECRS, he has been allowed to attend the Public Employees Retirement System Summit, which runs for three days in Newport, Rhode Island. This year the summit is scheduled for July 21<sup>st</sup> thru the 23<sup>rd</sup> and he once again is seeking the Board's permission to attend the conference.

The board was in agreement that Mr. Fleury attends the Public Funds Summit.

Having conducted all the business of the day, Trustee Molan moved to adjourn the meeting at 10:15 a.m. seconded by Trustee Lynch and passed unanimously by all those trustees present.

Respectfully Submitted

Gerard E. Fleury  
Executive Director