

March 8, 2022
Minutes #593

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Molan called the meeting to order at 8:38 a.m.

Present: Trustees: Sharon Wickens, Richard Bunker, Tom Bozoian, and Mathew Ciechon

MECRS Staff: Melanie Murray, Kim Barrett, and Suzanne Wilson

Linked Remotely: Chairman Richard Molan, Trustee Donald Pinard, Representative Kevin Noelke from Gabriel, Roeder, Smith & Co.

In Attendance: Attorney John Rich from McLane Middleton, Professional Association, Sebastian Grzejka from NEPC, and Mark LaPrade from Berry Dunn

Not Participating: Mayor Joyce Craig

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion to approve the previous board meeting minutes of January 11, 2022.

Trustee Bunker moved to approve the minutes of January 11, 2022, seconded by Trustee Wickens. Motion carried unanimously.

Approval of the Immediate Meeting Agenda:

Chairman Molan entertained a motion to approve the immediate meeting agenda.

Trustee Wickens moved to approve the immediate meeting agenda, seconded by Trustee Bozoian and passed unanimously by all those trustees present.

Attorney Rich reminded the Board of the rules requiring remote members to indicate whether others were present at their location.

Chairman Molan and Trustee Pinard who were both away from New Hampshire on vacation stated that they were each presently alone.

New Business:

Gabriel, Roeder, Smith & Co. – Representative Kevin Noelke from GRS was linked remotely to deliver the 2021 preliminary actuarial valuation results.

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Before beginning his presentation, Mr. Noelke thanked the Board for allowing him to deliver the preliminary valuation results remotely. He then turned the trustees' attention to the GRS report included in the agenda packets.

Mr. Noelke reminded the Board that the plan is funded by contributions and the rate is made up of the normal cost of the pension representing the present value of the current year's benefit that the members accrue as well as the unfunded liability.

Preliminary results indicate a pension contribution rate 32.02% health subsidy rate of 2.84%. These contribution rates amortize the unfunded pension actuarial accrued liability over a period of 18 years.

Referring to the table on page 2 of the report, Mr. Noelke summarized the actuarial present value of \$483 million for future pension benefit costs.

Mr. Noelke then reviewed the detailed chart on page 4, entitled "Development of Funding Value of Assets". Differences between actual and assumed investment income are phased in over a closed five-year period, smoothing the impact of individual years. He noted that currently the upcoming years have built in gains that will produce a positive asset return if assumptions are met.

Next Mr. Noelke continued on to page 5 of the of the report, Allocation of Funding Value of Assets. This apportions the value between pension and health, ultimately deriving the ratio for the Unfunded Liability. He reported a pension funding value of \$265 million and a health funding value of \$18.6 million resulting in a funded ratio of 62.2% for pension benefits and 49.3% for health subsidy benefits as of December 31, 2021, roughly a 3% increase from the prior year.

Mr. Noelke referred to page 6 to compare the expected liability to the actual at year end, with the difference resulting in the experience gain or loss. The actual pension liability was less than assumed, resulting in a gain of over \$5.9 million, while health saw a small loss.

Page 7 of the preliminary valuation, Mr. Noelke stated, reflects the computed contribution rate of 34.86%, a combination of the employer pension total and health contribution.

As there were no plan changes nor assumption changes in 2021 the largest impact on the contribution rate was based on experience during the year, which is explained more in the comments.

Comment A summarizes that the System is 62.2% funded, and that we are amortizing the Unfunded Liability over 18 years.

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Comment B reviews the experience for the year, which was more favorable than assumed for pension benefits, mostly due to investments and mortality. Health experience was less favorable, with investment gains being offset by more retirees than assumed electing health insurance subsidy.

Comment C covers benefit enhancements. The COLA awarded in 2021 was 1.00%, which was expected, so there was no impact. There was a liability increase based on service upgrade elections, as the employer pays half of the cost, or a \$206,000 increase.

Mr. Noelke stated that post-retirement health subsidy valuation results are impacted by utilization. As noted in Comment F, in 2021, 61% of retirees elected the subsidy, and the valuation assumes 55%, resulting in a loss.

Moving on Comment H reflects the average increase in final average compensation which is currently assumed to be 12%, But actually was about 15%, resulting in a small loss. GRS continues to monitor this impact to ensure the assumption is still valid.

Lastly, Mr. Noelke directed the Board to the last page of the valuation, Unfunded Actuarial Accrued Liability Amortization Schedule and Projected Funded Status (Pension Only). This schedule has been expanded this year to make it more useful.

He explained that the chart is an open group projection, which reflects the current active population size by replacing exiting active members with new hires. The MECRS objective, he stated, is to reach 100% funding by 2042. In addition, it is the intention of the MECRS to reach 75% funding on or before December 31, 2030. The projection is that the System will actually reach 75% funding by 2028. The schedule demonstrates the Employer contribution actually decreases in the first 4 years due to scheduled phased-in gains in the Asset Valuation Method. This method smooth spikes to maintain level contribution rates. While the contribution rates remain level percent of pay, the required dollar contribution is projected to increase with wage inflation.

Mr. Noelke then asked if there were any questions.

Trustee Bozoian asked how the utilization assumption of recipients electing the health subsidy is determined, for which Mr. Noelke responded that a review of past experience over 5 years is used in determining that value. Trustee Bozoian then asked about how the subsidy amount increases, to which Ms. Murray responded the increase is 4% per year.

Chairman Molan asked if this was the final valuation, to which Mr. Noelke responded that this report is preliminary, and once they receive updated asset information, the final contribution rate is usually a difference of a couple basis points.

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Chairman Molan thanked Mr. Noelke for his presentation and stated that GRS will move forward with providing the final valuation results.

Chairman Molan asked Mr. Mark LaPrade if he had any comments or concerns regarding the preliminary valuation.

Mr. LaPrade stated that the preliminary valuation results are in trending as expected and that he was pleased with the decrease in the employer contribution rate.

Report of the Executive Director:

February Update: Executive Director Murray stated that while there was no Board meeting in February, the office was rather busy fielding inquiries about 1099 forms and Annual Member Statements, which had been mailed in January. She reported that many requests were received for member beneficiary changes.

Ms. Murray then informed the trustees that she is currently working on putting together information for an informational session regarding Retirement System benefits, at the request of the Department of Public Works, for which Trustee Bozoian responded that he would send Ms. Murray department contact information.

2021 Year-end: Next Ms. Murray reported that staff has completed the 2021 Year-end process, for which a few late adjustments were encountered. She stated that 2021 will be the first year-end process utilizing the newly acquired general ledger software, Denali. She then referred to a New Business agenda item, customary year end request for motion, annual budget transfers.

2021 Annual Audit: Ms. Murray informed the Board that Berry Dunn is scheduled to begin work on the annual audit, beginning April 18th, and that she has the engagement letter for the Chairman Molan's signature. She noted that she has received the auditor's schedule requests and that she and Ms. Barrett, Executive Assistant, are working on gathering the various information. Ms. Murray reiterated that this is the first audit using the general ledger software, Denali, whereby the reporting is different and that staff is working through acquiring the information and becoming familiar with the format.

Committee Meetings: In closing the Executive Director's report, Ms. Murray informed the trustees of the need to schedule a meeting for the Investment Committee, to review the 2022 Asset Allocation and to review and consider any recommendations by investment consultant, NEPC. Also, she indicated that the Administrative & Accounting Committee will need to schedule a meeting to discuss the 2022 COLA as well as to review the bylaws. She then noted that pursuant to the MECRS Bylaws, 2 committee members are required to be physically present

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to have a quorum for a committee meeting. Lastly, she stated that the next Board of Trustees meeting is April 12, 2022.

Before moving forward with the day's agenda, Attorney Rich reminded Chairman Molan that pursuant to RSA 91-A and By-Laws Article IX, Board Meetings, 9.08, all votes taken during a meeting in which any member participates remotely shall be by roll call vote.

February Consent Agenda:

Chairman Molan entertained a motion to accept the February Consent Agenda items.

Trustee Wickens moved to accept the February Consent Agenda, seconded by Trustee Bunker.

Chairman Molan asked Administrative Assistant, Suzanne Wilson to conduct a roll call vote.

Ayes: Chairman Molan, Trustee Pinard, Trustee Wickens, Trustee Bozoian, Trustee Bunker and Trustee Ciechon.

Nays: None

Motion Carried

March Consent Agenda:

Chairman Molan entertained a motion to accept the March Consent Agenda items.

Trustee Bozoian moved to accept the Consent agenda, seconded by Trustee Wickens.

Administrative Assistant, Suzanne Wilson conducted a roll call vote.

Ayes: Chairman Molan, Trustee Pinard, Trustee Wickens, Trustee Bozoian, Trustee Bunker and Trustee Ciechon.

Nays: None

Motion Carried

Chairman Molan then asked Representative Sebastian Grzejka from NEPC to provide the Board with the performance update.

Sebastian Grzejka directed the trustees' attention to the handout, Performance Report for the period ending January 31, 2022. He stated that January was a volatile month, as well as

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February, with volatility coming through in March as well. The volatility has impacted all investments across the board. Equities and risk assets have sold off. The expectation was that inflation would keep rising and the federal reserve would increase rates. Therefore, negative returns were seen in January with the exception of energy and commodities.

On a relative basis, Mr. Grzejka reported, February is looking to be much better than January, but negative nonetheless. He stated that what is happening in Europe is playing on markets overall. Investors are taking a step back to see how sanctions play out globally.

Mr. Grzejka highlighted the January performance, with a total composite value of \$295,462,540, resulted in the Plan being down about 4.8%, driven by a number of areas. The three managers, Sands Capital, Kabouter, and Hardman Johnston, all growth oriented, have underperformed significantly.

In closing his report, Mr. Grzejka suggested that recent poor performance with Sands Capital and Kabouter, outside of expectations, warrants a review by the Investment Committee. He reported that NEPC, at this time, is less concerned with Hardman Johnston, a fairly newer addition to the portfolio.

New Business:

Request for Transfer - Executive Director Ms. Murray requested \$34,202.36 in transfers between accounts in order to have the 2021 Administrative Budget close out, without any individual lines exceeding the appropriated amount.

Chairman Molan entertained a motion to accept the requested transfer.

Trustee Bunker move to approve the transfer, in the amount of \$34,202.36, seconded by Trustee Wickens.

Administrative Assistant, Suzanne Wilson conducted a roll call vote.

Ayes: Chairman Molan, Trustee Pinard, Trustee Wickens, Trustee Bozoian, Trustee Bunker and Trustee Ciechon.

Nays: None

Motion Carried

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Motion to Adjourn:

With no other business to come before the Board, Chairman Molan entertained a motion to adjourn the meeting.

Trustee Bozoian moved to adjourn the meeting at 9:10 a.m., seconded by Trustee Wickens.

Administrative Assistant, Suzanne Wilson conducted a roll call vote.

Ayes: Chairman Molan, Trustee Pinard, Trustee Wickens, Trustee Bozoian, Trustee Bunker and Trustee Ciechon.

Nays: None

Motion Carried

Respectfully Submitted,

Melanie Murray
Executive Director