July 11, 2023
Minutes #609

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Molan called the meeting to order at 8:33 a.m.

Present: Trustees: Richard Molan, Sharon Wickens, Richard Bunker, Mathew Ciechon, and Michael Carpenter

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

In Attendance: Attorney John Rich from McLane Middleton, Professional Association
Mark LaPrade and Samantha Edie, both from Berry Dunn

Absent: Donald Pinard, and 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 June 13, 2023.

Trustee Bunker moved to approve the minutes of June 13, 2023, seconded by Trustee Wickens. The motion was approved by all trustees present.

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 Ciechon, and approved by all trustees present.

New Business:

Representatives from Berry Dunn were in attendance to deliver the results of the 2022 MECRS Audit – Mr. LaPrade Principal/CPA introduced Samantha Edie, CPA, manager of the MECRS' audit.

Referring to the audit presentation booklet, Ms. Edie first highlighted the Key Financial Information on page 3. She pointed out a decrease in the Fiduciary Net Position from 2021, in the amount of $43.7 million, primarily related to investment losses, which is consistent with other clients and investments, due to market conditions. She reported that contributions increased by 7.2% from 2021 and benefit payments increased to $24.7 million, approximately 6.8% more than 2021. She then referred to the Other Deduction line of $1.4 million, noting the number includes refunded contributions to members, and is consistent with the previous year. Refunds in 2022 were made up of $497,000 of the $1.4 million, compared to $690,000 in 2021.

Moving on to the next slide, Ms. Edie explained that the audit is performed in accordance with U.S. Generally Accepted Accounting Standards and Government Auditing Standards. The audit is designed to obtain reasonable, not absolute, assurance and requires an understanding of internal controls but does not necessarily test all controls. The audit does not cover the Required Supplementary Information or other information, for which she provided a list of information that is not covered. She stated that there were no issues identified as part of the audit procedure this year and there is an unmodified opinion of the basic financial statements, which is the highest opinion that auditors can issue.

Working through the presentation, Ms. Edie highlighted the footnotes of the audit. Note 3, she stated, refers to the investments and fair value, note 7 summarizes the deposit and investments risks, and Notes 8 and 9 include required disclosures for Net Pension and OPEB Liability for GASB 67 and 74. Note 10, Ms. Edie continued, summarizes the actuarial method and assumptions, including the sensitivity of net pension and OPEB liability to a 1% change in the discount rate, showing a 1% increase verses a 1% decrease.

Mr. LaPrade continued on to page 7 of the presentation, listing management responsibilities as preparation and presentation of the financial statements, as well as the design, implementation and maintenance of effective internal controls. He stated that the audit team is not a component of management's internal controls and that the audit does not relieve management or those charged with governance of their responsibilities. Management is required to evaluate whether there are any conditions or events that raise substantial doubt about the Retirement System's ability to continue as a going concern. He added that an unmodified opinion is the highest level of assurance they can provide. He explained the last bullet item, assessment of significant risks, in which they focus on management override of controls, valuation of investments, and contributions to the Retirement System as the significant risks of material misstatement. He noted that the audit is designed to obtain reasonable assurance that the financials are free from material misstatement.

Directing the Board's attention to page 8, Required Auditor Communications, Mr. LaPrade reported that there were no new significant accounting policies adopted, nothing was changed during the year, no transactions lacked authoritative guidance and all significant transactions were reported in the proper period.

Moving on to the next section, Management's Judgements and Estimates, Mr. LaPrade reported that the audit reviews key estimates such as financial statements, estimated fair value of investments and actuarially calculated contributions. The audit process reviews underlying methods and assumptions that are being used in obtaining these estimates, to find that all are considered to be fair and reasonable.

Mr. LaPrade then stated that there were no significant audit adjustments. The one consistent unrecorded adjustment, he informed the Board is related to the investment valuation of investments subsequently reported by investment managers. He reported the investments were understated by $641,000 as of December 31, 2022 compared to the investments understated by $4.1 million as of December 31, 2021. He explained that the difference is the function of getting the information to the actuary and it being reported in time for the audit.

In completing the Required Auditor Communications section, Mr. LaPrade reported that there were no disagreements with management and no difficulties in performing the audit. As part of the audit, Berry Dunn obtains a signed letter from management attesting to certain representations made during the audit. Mr. LaPrade disclosed that Berry Dunn is not aware of management having consultations with other accountants and Berry Dunn has also communicated with management throughout the year on a variety of matters. Those discussions were in the ordinary course of business and not a condition of Berry Dunn's retention.

Mr. LaPrade then briefed the Board on the Yellow Book Report regarding Material Weakness and Significant Deficiency. He defined a material weakness as a deficiency in internal control, or a combination of deficiencies, such that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. He defined a significant deficiency is a deficiency in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Mr. LaPrade reported that the audit did not identify any control matters that are considered to be material weaknesses, however material weaknesses or significant deficiencies may exist that were not identified. Certain tests were performed on compliance with certain provisions of laws, regulation, contracts and agreements. There is also a focus on potential noncompliance that would be direct and material to the financial statements. He reported that the audit did not note any instances of noncompliance or other matters that are required to be reported.

In reference to the Plan, Ms. Edie asked the Board and staff members if they had any concerns that they would like to express, for which the response was, "None." Working through a list of required inquiries, she then asked if there was any knowledge of any actual, suspected or alleged fraud affecting the Plan, to which she received a response of "None". Next question for the Board was, is there any knowledge of any possible or actual noncompliance or abuses of broad programs and controls occurring during the year, to which the response was, "None". Also, she asked, are any of you aware of any instance of noncompliance with laws and regulation that would be direct and material to the financial statements, to which the Board response was, "No".

Attorney Rich reference a statement in the audit documents which refers to the Retirement System being a unit of the City of Manchester, and he asked for the significance of that statement.

Mr. LaPrade responded that the plan is considered a component unit of the City of Manchester that is included in the City's reporting.

Chairman Molan thanked Mr. LaPrade and Ms. Edie for their presentation and they departed.

Chairman Molan entertained a motion to accept the MECRS' 2022 Audit and place on file.

Trustee Wickens moved to accept the MECRS' Audit of 2022 and place on file, seconded by Trustee Bunker and passed by all those trustees present.

Report of the Executive Director:

School and City Software Upgrades – Ms. Murray updated the Board noting that the progress has been slow on school and city software upgrades. PTG requested an updated test file from the School District, so they can test again before providing a test version for the System to review. Ms. Murray indicated that the School District provided the requested file, which was forwarded to PTG the previous week.

2022 Audit/Annual Report – Referring to the audit presentation just received by Berry Dunn, Ms. Murray indicated that the auditors actually finished their audit work sooner than anticipated The Annual Report has been compiled and proofed with exception of the audit letter. Once that has been completed, the Annual Report will be readied for printing.

Report of the Monthly Cash Balance – Ms. Murray stated a beginning balance of $5.5 million for the month of June. She reported a healthy cash balance inclusive of contributions and distributions ending the month of June, in the amount of almost $6 million. She added that any significant capital calls during the slow summer payroll months could require liquidating investment assets.

Benefits Committee:

Committee Chairman Ciechon reported that the Benefits Committee met as scheduled on Wednesday, June 21, 2023 at 9:30 a.m. to discuss possible plan amendments, designed to ensure the continuity of the plan, as well as the option factor update from the actuary.

Committee Members Ciechon, Molan, Pinard, and Carpenter, as well as Trustee Wickens reviewed the 2018 report from GRS as well as the previous House Bill 211. After some discussion, Member Molan moved that a recommendation be made for the Board to authorize a request to have GRS report on the estimated impact to employer rates and funding status, and the average retiree for the following changes, for all participants as well as for only new hires:

- Normal Retirement age from 60 to 62
- Early retirement reduction from 1/6 of 1% to 7/12 of 1%
- Final Average Earnings period from 3 to 5 years

- Member total contribution rate from 5% to 6% or 7%
- Vesting from 5 to 7 years.

The motion was seconded by Member Pinard and approved unanimously.

Chairman Molan then asked Ms. Murray if she had received the requested estimate from GRS, to which she responded, that she had shared the estimate with committee members electronically. The estimated cost from GRS she reported, was $20,000.

Chairman Molan stated that the items listed would be significant changes to the Plan.

Attorney Rich commented that making the changes applicable to all active members is considerably different then what was done in the prior legislation, whereby an effective date was used, which also has a direct impact on the estimated cost savings to the System.

Chairman Molan then recessed the meeting at 8:49 a.m. to conduct discussion on the matter with legal counsel

Chairman Molan reconvened the meeting at 8:59 a.m.

Chairman Molan entertained a motion to approve the expenditure to GRS to review the proposed changes as previously listed that would only apply to future employees as of January 2025.

Trustee Wickens moved to approve the expenditure to GRS, to study the changes that would apply to future employees as of January 2025, seconded by Trustee Bunker, and passed by all those trustees present.

Consent Agenda:

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

Trustee Wickens moved to accept the Consent Agenda, seconded by Trustee Bunker, and passed unanimously by all those trustees present.

New Business:

Accept and Place of File the Gainful Occupation Report for 2022 – Ms. Murray explained that the report consists of two sections, disability recipients who are required to report and those who are not.

Only three disability recipients were gainfully employed, and their income did not exceed the earning limitations imposed by the regulation.

Trustee Wickens moved to accept and place on file the 2022 Gainful Occupation Report, seconded by Trustee Bunker and passed by all those trustees present.

Informational Items:

NEPC Monthly Performance Report period ending May 31, 2023 – The trustees briefly discussed the investment with Kayne Anderson and agreed to further review the investment manager with NEPC representatives present. The Board then agreed to schedule an Investment Committee meeting in the coming months.

Trustee Carpenter inquired as to the vesting period and whether or not those that are not yet vested would fall into the category stated earlier, regarding the GRS request.

Chairman Molan clarified that the estimate would only be for new hires after January 2025.

Motion to Adjourn:

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

Trustee Wickens moved to adjourn the meeting at 9:08 a.m., seconded by Trustee Ciechon, and passed unanimously by all those trustees present.

Respectfully Submitted,

Melanie Murray
Executive Director