March 12, 2024
Minutes #616

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Molan called the meeting to order at 8:32 a.m., confirming he was alone

Present: Trustees: Richard Bunker, Mathew Ciechon, Donald Pinard and Sharon Wickens

MECRS Staff: Melanie Murray, Kimberly Barrett and Suzanne Wilson

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

Linked Remotely: Chairman Molan, Sebastian Grzejka from NEPC, Kevin Leonard from NEPC, Kevin Noelke from Gabriel, Roeder, Smith & Co., as well as retirees Gerard Fleury and Harry Ntapalis

Absent: Michael Carpenter and Mayor Jay Ruais

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion to approve the previous board meeting minutes of January 9, 2024.

Trustee Bunker moved to approve the minutes of January 9, 2024, seconded by Trustee Wickens.

Executive Director Murray conducted a roll call vote.

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

Nays: None

Motion Carried

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 Pinard.

Executive Director Murray conducted a roll call vote.

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

Nays: None

Motion Carried

New Business:

2023 Preliminary Valuation - Representative Mr. Kevin Noelke from Gabriel, Roeder, Smith & Co, was linked remotely to deliver the 2023 Preliminary Actuarial Valuation.

First, Mr. Noelke reminded the Board that the objective of the valuation is to calculate the required contributions consistent with the funding objective of the Retirement System which is that the required contributions will remain approximately level from year. The valuation also will assess the funded status of the Plan. He explained that the contribution rate is made up of the normal cost for current benefits earned plus the unfunded liability for benefits previously earned, which has 16 remaining years of amortization.

Mr. Noelke referred to page 2 of the report, demonstrating the computed pension contribution rate for the City's fiscal year ending June 30, 2025 is 32.98% of covered payroll. This amount is comprised of 10.08% normal cost and 22.90% of amortization of the accrued liability. The computed health contribution is 1.73%, resulting in a total employer rate of 34.71%, a decrease from last year. He reported the pension funded status of 62.7% and the health funded status of 64.5%, both experiencing increases from the prior year.

Mr. Noelke referred to page 3 of the presentation booklet, Contribution Rate Reconciliation chart. He pointed out that for the pension, the largest impacts on the rate were the payroll growth more than expected and the experience loss. The largest impact on the health rate was the transition of the City and School District to the Medicare Advantage plans for retirees, resulting in a reduced subsidy amount.

Mr. Noelke moved to the "Unfunded Actuarial Accrued Liability (UAAL) Amortization Schedule and Projected Funded Status (Pension Only)" chart on page 4. The top line of the schedule, Mr. Noelke explained, reflects the current year 2023 at 63% funded status, with the pension contribution rate for fiscal year ending 2025 as 32.98%, with the employer contributions at $21.3 million. The schedule projects that the System will be 100% funded in 16 years, which is in line the Funding Policy. Based on what we know today, Mr. Noelke added, it is expected that the contribution rate will increase for the next 3 years due to the phased-in asset losses from 2022. Another thing to remember, Mr. Noelke stated, is since the Plan contributes as a percentage of pay, it is expected that pay will increase 2.5% each year. According to the schedule, Mr. Noelke reported that about halfway to the 16 years, the Plan is projected to be 75% funded, which is a little behind the funding goal, due to the phased-in investment losses.

Mr. Noelke then reviewed the detailed chart of page 7 entitled "Development of Funding Value of Assets". He explained that they take the market value at the end of the year, and then they phase in the gains or losses experienced for the year over a 5-year period, after crediting the assumed rate of return. The loss experienced in 2022 will continue to be spread over the next 3 years. While the market gain was 12.8% for 2023, after recognizing one fifth of the past 4 years' gains and losses, blended with one fifth of this year's gain, the Recognized Rate of Return equaled 7.0% for the year, slightly higher than the Assumed Rate of Return. He went on to explain that the chart for the upcoming 3 years starting off with losses demonstrates why the employer rate is projected to increase.

Next Mr. Noelke referenced the graph on page 5, Summary of System Liabilities and Resources. He explained that the graph provides a snapshot of the pension and health liabilities and resources as of the valuation date. He explained that the graph demonstrates that the retiree and vested terminated liabilities are almost fully covered by the current assets, and the active accrued and future liabilities make up the amounts of the unfunded liability and future contributions.

Mr. Noelke turned to page 6, Summary of Current Asset Information, highlighting total valuation assets for 2023 of $310,614,032. Mr. Noelke noted that the takeaway from the chart is the recognized rate of return at the bottom. For 2022 it was 4.0% which was less than the assumed rate of 6.75%, and 7.0% was the recognized rate of return for this year.

Mr. Noelke reported that page 8 demonstrates similar information to the graph he reviewed earlier from page 5, adding that the funded status at the bottom increased for both pension and health. Page 9 provides a 10-year history of the liability and funding for both pension and health.

Working through his report, Mr. Noelke turned the trustees' attention to the Experience Gain/ Loss, demonstrating what we expected the Unfunded Liability to be compared to what it was. Pension shows a loss of $7 million and health shows a gain of $6 million. The next couple of pages show a history of the changes which impacted these numbers.

Mr. Noelke then referred to the Comment section of his report which summarizes the details of what happened for the year. For example, in comment B, he explained that the primary source of the experience loss in pension was due to salary increases greater than expected. In addition, though there were more retiree deaths than expected, on a liability basis, the impact was less than expected. He explained the health experience gain was due to the lower than expected stipend benefits for post-65 retirees eligible for the full stipend. Because the City and School District switched to the Medicare Advantage plan, which currently have a premium less than the full stipend, the result was a gain for the health subsidy.

Mr. Noelke then referenced Comment D, Assumption Changes. He explained that the load assumption for end of career payments affecting final average earnings was increased from 12% to 13%, pending Board approval. The load was increased to reflect recent experience, reported in Comment E and increased pension liabilities by about $1.5 million for this valuation.

Mr. Noelke explained that in processing the valuation, we estimate what the active members' benefit will be at retirement. The actual final pay when someone retires is averaging 13 or 14% higher than expected and this year it was 14.5%. He stated that normally assumptions are changed when conducting an Experience Study. However, the next Experience Study is due after next year, and the experience has exceeded 13% for the past 5 years. If the load is increased closer to what is expected, then the System is less likely to have a loss, which means the Plan will be funded a little faster and appropriated with how liabilities are accrued. Mr. Noelke stated that while the System is seeing the contributions rate decrease this year, it may be a good time to increase the load assumption to 13%, since GRS would recommend increasing the load as part of the next Experience Study.

Trustee Pinard inquired as to why those payouts are not already worked into the valuation, which was explained that the valuation projects forward and the sick and vacation payout of those retiring is not an easy assumption to predict.

Trustee Wickens asked how increasing the load to 13% would impact the employer contribution rate. Mr. Noelke referred to the chart on page 3, for the rate reconciliation, where he indicated the impact to the rate was 0.28%, which was already included in what was presented. He added that when assumptions are changed, they don't recommend going all the way to what experience has been. Usually, past practice is to meet half-way, taking a step in the direction that the assumption is, which why the recommendation is for increasing it to 13%.

Trustee Molan mentioned that next year will be a similar result because we know what the salary increase will be similar as the previous year. He stated that it would make sense to adjust the assumption now, to which all trustees agreed.

Moving on to page 15 on the presentation booklet, Health Valuation, Mr. Noelke reported that the health subsidy assumption of 55% utilization does not need to be changed and he also stated that the 6.75% Investment Return still remains reasonable, but on the high end.

Comment H, he stated indicates how the retiree health benefit is calculated and how it passes the required tests for the 401(h) Plan. Mr. Noelke stated that the remainder of the presentation booklet is data, and he reviewed it briefly.

Mr. Sebastian Grzejka from NEPC asked for clarification about the performance and how it is allocated on a percentage basis. Mr. Noelke explained that for 2023 for example, the return was 12.8%, so approximately 6% over the assumed rate would be spread over 5 years, blended with the phased in gains and losses of the other years.

In concluding his report Mr. Noelke stated that he will wait to hear from Executive Director Murray regarding the Board's vote on the GRS's recommendation to increase the assumption load affecting final average earnings. He thanked the Trustees for their time and he exited the Zoom session.

Chairman Molan entertained a motion to increase the assumption load of final average earnings from 12% to 13%.

Trustee Bunker moved to increase the 12% final average earnings assumption load to the recommended 13%, to be reflected in the 2023 Final Valuation, seconded by Trustee Pinard.

Executive Director Murray conducted a roll call vote.

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

Nays: None

Citizens Comments:

Chairman Molan asked those retirees Mr. Gerard Fleury and Mr. Harry Ntapalis if they had any comments for the Board, but they had none.

Report of the Executive Director - February

Annual Statements**:** Ms. Murray reported that the annual Member Benefit Statements were printed and mailed on January 11th for active and deferred participants of the Plan, beating the postage increase announced for January 21st. As we've come to expect, the mailing was followed up by a number of member inquiries, including many to update their beneficiary information.

Meeting with Unions: Next Ms. Murray reported that she and Trustee Ciechon met with some of the Union Presidents as mentioned at the January board meeting. Unfortunately, the showing ended up being less than anticipated, but she noted that they had productive discussion. The Board's commitment was conveyed as to the sustainability of the Plan and the need to explore modifications to maintain that goal.

She informed the Board that those in attendance were given a copy of the previous legislation as a starting point, and they were also updated on the changes discussed by the Board. Discussion also ensued on the differences to the current structure and to that of New Hampshire Retirement System. She reported that the increased number of years for vesting seemed to be the least popular of the items. Additionally, they discussed increasing the employee rate for all employees by a half a percent or for only new employees by a full percent. The marked preference was for changes to the employee rate to be made across the board, especially given that all the other changes to be made were just to the new employees.

Benefits Committee Chairman Ciechon suggested the need to schedule a Benefits Committee meeting to further discuss the next steps in the proposed legislation.

<u>PTG Update:</u> Ms. Murray informed the board that Christopher Lodge, President and CEO of Pension Technology Group reached out to update MECRS on some reorganization they've had internally over the past year, including himself as well as a new CEO, Brandon Johnson. Aside from those introductions, Ms. Murray stated that he wanted to reiterate their commitment to MECRS as a client and provide assurance that nothing has changed in terms of intellectual property, their product, and the MECRS data.

<u>2023 Year-end Processes:</u> Ms. Murray reported that the accounting for the 2023 Fiscal Year has been completed. The valuation data has been forwarded to GRS, and she is compiling the draft for the annual report, which will mark a 50-year milestone for MECRS.
The annual budget transfer motion is on the agenda for March, for the Board to authorize the reallocation of surplus to areas where the expenditures exceeded the estimates.

<u>State Street Data Breach:</u> Ms. Murray referred to her January Executive Director's report, whereby she informed the Board that State Street Bank had discovered a possible exposure in which a retiree pension check was compromised. She stated that as she continued to press State Street for information, she was finally able to determine, not only was the check not a retiree pension check, but it was an expense check payable to herself for mileage reimbursement. So ultimately there was no exposure to any pensioner.

Chairman Molan asked Benefits Committee Chairman Ciechon if he had any other observations about the meeting with the union groups.

Committee Chairman Ciechon reiterated Ms. Murray's comments that spreading the increase of employee contributions across all groups seemed to be the preferred change.

Report of the Executive Director - March

2023 Year-end/Annual Report: Ms. Murray reported that she is finishing the preparation of the draft of the Annual Report for 2023, with the exception of the valuation information. Once the Board accepts the results from GRS, Ms. Murray stated that she will update that last section. The audit is scheduled to begin on April 15th, so MECRS will be well prepared for their review.

Also Ms. Murray mentioned that as she works on Annual Report preparation, a couple of trustees have commented on their photos in prior years. She stated that if any trustee would like their photo updated for this year's Annual Report to please send a new photo in, or she could take a photo here at the office.

Building Security: Ms. Murray then informed the board that the building which houses our offices continues to have issues with unauthorized individuals gaining access to the premises. Though the MECRS office suite has not been compromised or affected, others have, causing the building owners to proceed with locking the front door at all times. There is a panel to the right of the door, called Door Bird, which functions as a video doorbell. This allows visitors to our offices to connect with us, and we can unlock the door to allow them admittance. It is an inconvenience, but hopefully will provide a safer environment for all.

2024 COLA: In closing her report Ms. Murray reminded the trustees that the Administrative & Accounting Committee will need to schedule a meeting to discuss the 2024 COLA recommendation.

Report of the Monthly Cash Balance:

Ms. Murray began with the Cash Balance Report for month ending January 2024. She reported that the System started the month with $8 million and ended with a little over $7.5 million due to a large capital call with Nexus Special Situations III.

Moving on to the February Cash Balance, Ms. Murray reported the balance at the beginning of February with a little over $7.5 million, ending with $7.5 million. Just a few small capital calls, that left the cash balance in a similar stance, with a remaining healthy balance at the end of February.

Report of the Investment Committee:

Committee Chairman Bunker reported that the Investment Committee met as scheduled on Wednesday, February 28, 2024 at 9:00 a.m. for an Asset Allocation Review and Portfolio Update, as recommended by our consultant at NEPC.

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After review, NEPC first recommended minor adjustments to the Asset Allocation, namely among the Equity categories, overall increasing the Total Equity Target by 2% and decreasing the Total Real Estate Target by 2%. After discussion, Trustee Wickens moved to recommend that the Board accept the proposed target updates. The motion was seconded by Trustee Ciechon and approved unanimously by roll call vote.

In closing his report, Committee Chairman Bunker stated that NEPC also recommended the addition of a dedicated High Yield Investment. After discussion, Trustee Ciechon moved to recommend that the Board accept the proposal. The motion was seconded by Trustee Wickens and approved unanimously by roll call vote.

Chairman Molan entertained a motion to approve the recommendation by NEPC as stated by Committee Chairman Bunker.

Committee Chairman Bunker moved to accept the new asset allocation targets and the addition of the high-yield investment component as recommended by NEPC, seconded by Trustee Ciechon.

Executive Director Murray conducted a roll call vote.

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

Nays: None

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 Ciechon.

Executive Director Murray conducted a roll call vote.

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

Nays: None

Motion Carried

March Consent Agenda:

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

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

Executive Director Murray conducted a roll call vote.

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

Nays: None

Motion Carried

New Business:

Request for Transfer – Chairman Molan explained that the Executive Director is requesting overall transfers of $25,121.22 among budgeted accounts to close out the 2023 Administrative Budget, without any individual lines exceeding the appropriation. He noted that this is an annual, customary event. He asked the Board if they had any questions regarding the transfer, to which there were none.

Chairman Molan then entertained a motion to approve the request for transfer.

Trustee Pinard moved to approve the request for transfer as stated, seconded by Trustee Wickens.

Executive Director Murray conducted a roll call vote.

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

Nays: None

Other Business:

NEPC – Monthly Performance Report: Mr. Grzejka first referred to the January Performance Report, stating slightly positive results with a repeat performance for February as well.

He also stated that NEPC has a rebalancing recommendation that ties to the asset allocation piece and ties to a greater balance within large cap in terms of active verses passive.

Mr. Grzejka reviewed the performance detail for the end of January, stating that it was a mixed month to start off the year with a couple of components of the market performance slightly positive, US Equities and segments of fixed income. There was also a pullback of other sides of the markets, resulting in a neutral month, with a positive 10 basis points return from some of the

Investment Managers. Mr. Grzejka continued to provide performance details for Non-US Equity Composite, International Equity Composite, and Global Equity performing well, up 19% and positive performance in Fixed Income.

Mr. Grzejka reported that Real Estate / Real Asset Composite has seen some pressure, particularly, core Real Estate. He stated that a portion of the $3 million request is still pending from Prudential Investors. On a quarterly basis Prudential distributes a portion of the funds, and he noted that Prudential does have an exit queue.

From an asset allocation perspective, Mr. Grzejka stated that the target has been reduced to Real Estate/Real Assets. The market is seeing a change within Real Asset infrastructure and NEPC is keeping a close watch.

From a rebalancing perspective, Mr. Grzejka stated that NEPC completed an estimate through last week. The total market value has increased through the month of February. He explained that this is not rebalancing to target. Generally, he stated, the portfolio currently is in line with targets.

NEPC's recommendation Mr. Grzejka stated is to take Aristotle and Sands Capital and to bring the two assets closer in line with one another and also to bring up the passive S&P exposure.

Chairman Molan entertained a motion to approve the recommendation to move $4,000,000 from Aristotle and $3,000,000 from Sands to the Fidelity, S&P 500 Fund.

Trustee Bunker moved to approve NEPC's recommendation, seconded by Trustee Pinard.

Executive Director Murray conducted a roll call vote.

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

Nays: None

Mr. Grzejka thanked the Board for their time.

Motion to Adjourn:

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

Trustee Bunker moved to adjourn the meeting at 9:34 a.m., seconded by Trustee Ciechon.

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Executive Director Murray conducted a roll call vote.

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

Nays: None

Respectfully Submitted,

Melanie Murray
Executive Director