

Senate Executive Departments and Administration Committee

Deb Chroniak 271-1403

SB 140, relative to the independent investment committee in the New Hampshire retirement system.

Hearing Date: February 22, 2017

Time Opened: 9:50 a.m.

Time Closed: 10:14 a.m.

Members of the Committee Present: Senators Carson, Reagan, Gannon and Soucy

Members of the Committee Absent: Senator Woodburn

Bill Analysis: This bill establishes terms for the retirement system's independent investment committee members and requires one member to be an active member trustee.

Sponsors:

Sen. Soucy
Rep. Danielson

Sen. Watters

Rep. Proulx

Who supports the bill: Senator Soucy, District 18; Senator Watters, District 4; Darro Scalea, Professional Fire Fighters of New Hampshire; Richard Gulla, President, State Employees Association; Major Loomis, self; Germano Martins, Hooksett, New Hampshire, Member, SEIU 1984

Who opposes the bill: Barbara Reid, New Hampshire Municipal Association (NHMA)

Who is neutral on the bill: Marty Karlton, Public Information Officer, New Hampshire Retirement System

Summary of testimony presented in support:

Senator Donna Soucy opened stating this bill has two issues relating to the same part of the statute.

- First is to allow a New Hampshire Retirement System member to be a member of the Independent Investment Committee, an active member trustee. The second is to add terms of office.
- Funds of the pension are owned by the members who have the greatest stake in the process.
- Over the history of the system, there have been members who were part of the

Investment Committee.

- Those who are participants in the system should have ability to be fully active participants and should have one person active in the system representing them.
- Believes there was an omission made when legislation was created and it was never the intent to create a committee in statute that did not have terms.
- She noted elected officials serve for term of office; boards and commissions have terms; the Supreme Court has terms and the Retirement System Trustees serve for a two year term.
- Believes everyone should serve for a term, even the Investment Committee. That does not mean that their terms need to be limited.
- Believes it was an omission when legislation was created.

Richard Gulla, President, State Employees Association (SEA) (in support) (testimony provided):

- Concerned about the solvency of the New Hampshire Retirement Fund.
- Believes this bill is important to the future stability of the retirement fund.
- Currently, retirement plan has \$7.5 billion, with a funding ratio of 60%, the majority of these monies coming from return on investments.
- Important to maximize investment returns in order to fully fund the retirement plan.
- Stated studies show that higher returns from a defined benefit plan when input comes from employee trustees who have investments in the plan.
- This bill provides that one of the five committee members be an active member trustee.
- Noted the three year terms for the three non-trustee members; presently, there are no term limits for these committee members.
- Need to have some control over the process.

Senator Soucy asked Mr. Gulla if the committee were to remove the end part of and limit the language to, "Investment Committee members shall serve for a term of three years," could he support that. Mr. Gulla stated they would be happy to work with the committee on that.

Germano Martins, Employee of the State of New Hampshire, Hooksett, New Hampshire (in support) (testimony provided):

- Background is a Master's in Business Administration.
- Is a trustee at the retirement system.
- Noted he was not testifying as a trustee or representing the retirement system.
- Speaking as a member of the retirement system, and as a taxpayer.
- Believes this legislation would tighten up loops left open at the committee's inception.
- RSA 100-A:14-b (January 2009), made no reference to term limits and believes this was an oversight.
- Testifying in support to add an employee member to this committee.
- Discussed wording in RSA "appointed by" stating appointed by the Governor and appointed by the Chair of the committee. Gave a rundown of who was chair of this committee back in 2008 (Lisa Shapiro) and who was appointed to the committee.

- Discussed appointment of the chair and how the chair was appointed.
- Noted in 2011, a change was instituted on how a deferred account collects interest rates. He noted that if the performance of the plan were greater than 2%, you get some money. He said in 2016 the rate of return on the deferred account was only 1% and members received “zero”.
- When this happens, the unfunded ratio goes up and employees pay more money out of their contribution.
- Discussed the “20-year Time-Weighted Annual Returns” chart which can be viewed on the Retirement System’s website.
- Stated the Retirement System pays thousands of dollars to consultants to advise on investments.
- There are many people concerned about the returns on their investments.
- Mentioned a study completed at Harvard University on Privatizing Board Diversity.

Testimony provide in Neutral Position:

Marty Karlon, Public Information Officer, New Hampshire Retirement System (bill brief provided) (no position):

- Testifying to provide background and request a couple of considerations.
 - The original IIC was created out of recommendation from the original HB 876 commission in 2007, and enacted in HB 645 for commencement on January 1, 2009.
 - Stated that some state pension plans have their boards do investments; some have independent investment panels, separate from their system who do investments.
 - IIC has both trustee members and public members; public members are nominated by the Governor and confirmed by the Council.
 - Discussed the three year term with a two term limit (6 years). This is a short term given the investment cycles and long-term nature of pension obligations.
 - If bill passes, asking to consider multiple terms beyond two, with a question of whether terms were to be staggered or not, not wanting to lose institutional brain power all in one year.
 - Noted that it was difficult to find qualified candidates for this committee because there is a time commitment involved and the statutory requirement that all members must have substantial experience in the field of institutional investment or finance. These members are not compensated for their work on behalf of the members.
 - Do not want to make things harder to keep qualified members, which would be a concern.
 - If there were no member employee with substantial experience, that could cause a vacancy on the committee and also an unintended consequence to this bill.
- Senator Soucy** asked if removal of the end portion that would limit to two terms, but have members serve three year terms, asking if that would alleviate some of their concern. Continuing on to say members could be reappointed with no limits. **Mr. Karlon** stated the six year period would address one of their issues. **Senator Carson** asked if this should not be held for the decennial commission this year. She asked if it were possible to add a non-voting active member trustee. **Mr. Karlon** was not sure

from a legal perspective. He noted that would be unusual because all members now are voting members. **Senator Carson** said that folks are paying into the system and have an interest, but do not have a voice. She asked Mr. Karlton if he thought the committee should wait on this and have the commission come up with an answer. Mr. Karlton cannot give the committee a recommendation.

Summary of testimony presented in opposition:

Barbara Reid, New Hampshire Municipal Association (opposed):

- She said with the decennial commission being formed this year, and reviewing all aspects of the retirement system would be a more appropriate venue to have a review of how the Investment Committee has acted in the last nine years and whether there needs to be some changes made.
- Consistent with recommendations on retirement bills where they believe the decennial commission is the best place for retirement issues to be addressed.

Hearing closed at 10:14 a.m.

Future Action: Pending

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Date Hearing Report completed: February 24, 2017

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