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NOTES for Verbal Testimony Offering NHSBA Support for HB 1645 Senate ED&A Committee – NHRS Governance Issues April 23, 2008

Dean Michener, Associate Director
NH School Boards Association

Good afternoon Chair and members of the Committee. My name is Dean Michener and I am the Associate Director for the NH School Boards Association. In that capacity, I also served as a member, representing public employers, on the Commission to Study the Long Term Viability of the NH Retirement System. I appreciate the opportunity to be here today and share the School Board Association's support for HB 1645, which makes many needed revisions to the administration and operation of our state's retirement system. In addition, I would like to thank the sponsors of this bill for their work on incorporating many suggestions made in the Final Report of the Commission.

HB 1645 makes several needed adjustments to the NH Retirement System, including medical subsidy issues we discussed last week. Another noteworthy component is a change to the governing board and its operation (Sections 16 - 20). NHSBA supports these changes and their intent to ensure that the NHRS continues to improve in performance with the additional help and involvement of individuals, both on the board and on committees, who have expertise and knowledge in investment and financial matters.

Over the past 20 years, the funding ratio of NHRS fell from well over 100% to under 60%. This steady decline signals the need for an overall change to the governance structure. The change is not meant to cast aspersions upon those who have served on the Board in the past, but to recognize and acknowledge that a public pension system of \$6 billion is extremely complex. Its oversight and management requires expertise in, and knowledge of, investments and actuarial determinations that are critical to the health of the pension fund. As suggested in the Report of the Commission, the committee structure in HB 1645 will enable greater involvement of investment professionals on the investment committee and public accountants on the audit committee. Included in the Commission Report was a White Paper on Pension Governance that specifically noted the value of an investment committee with investment manager professionals.

The White Paper on Governance also included information on studies that have shown a negative correlation between fund earnings and the presence of active members on boards. The research reported diminishing returns once boards consist of 47% member trustees, and that public pension funds with trustees who are susceptible to political pressure will perform slightly worse than those funds with boards having politically-independent trustees (pages 125-127). HB 1645 creates a structure where stakeholders do not represent a majority, legislative representation is retained and people with qualified expertise are involved. Furthermore, the committee structure complements this process with subject matter expertise while still operating at the discretion of the Board.

Finally, I would also like to specifically support the provision in Section 18, clarifying the ability of the Chairman of the Board to vote on issues.

Executive Director

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