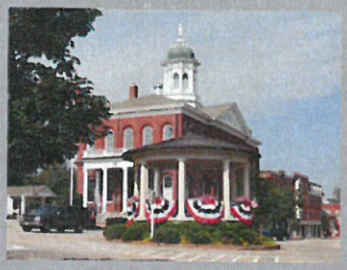
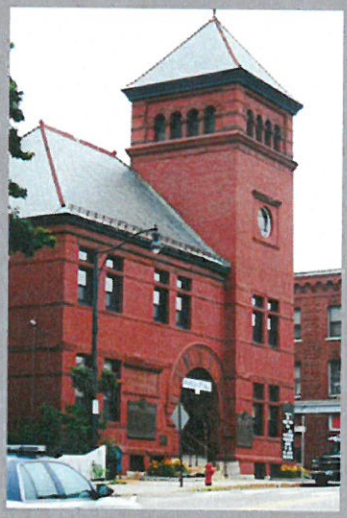




NHRS

New Hampshire Retirement System

NHRS

New Hampshire Retirement System

A Component Unit Of The State Of New Hampshire

Summary Annual Financial Report For The Fiscal Year Ended June 30, 2014

Our Mission

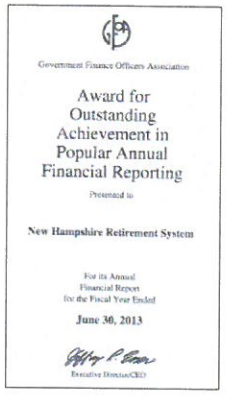
The New Hampshire Retirement System is a promise keeper. Our role is that of a fiduciary — administering the retirement benefit commitments made by our participating employers to their employees who are our members — according to the plan provisions as enacted by the State Legislature. Our ability to deliver on these promises is derived from investing member and employer contributions in a manner consistent with our long-term obligations and administering the system fairly and efficiently.

NHRS
New Hampshire Retirement System

Outstanding Achievement

The Government Finance Officers Association of the United State and Canada (GFOA) presented an Award for Outstanding Achievement in Popular Annual Financial Reporting to the New Hampshire Retirement System for its summary annual report for the fiscal year ended June 30, 2013.

This prestigious national award recognizes popular reports for creativity, presentation, understandability, and reader appeal and is valid for a period of one year. We believe the current summary annual report continues to meet these program standards and we are submitting it to the GFOA for evaluation.


Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

New Hampshire Retirement System

For its Annual Financial Report for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

NH Retirement System Board of Trustees

The members of the New Hampshire Retirement System Board of Trustees are appointed and serve pursuant to RSA 100-A:14.

Public Members
Richard Gustafson, Chair
Maureen Kelliher
David McCrillis
Hershel Sosnoff

Employee Members
Tonya Angwin, Teacher
Dean Crombie, Police
Germano Martins, Employee
George Walker, Fire

Employer Members
John Beardmore, State of New Hampshire
Julia Griffin, NH Municipal Assoc.
Donald M. Roy, NH School Boards Assoc.
John Wozmak, NH Assoc. of Counties

Ex Officio Member
Bill Dwyer, State Treasurer

Independent Investment Committee

The members of the New Hampshire Retirement System Independent Investment Committee are appointed and serve pursuant to RSA 100-A:14-b.

Harold Janeway, Chair
David Jensen
Maureen Kelliher
Patrick O'Donnell
Hershel Sosnoff

Executive Director

George P. Lagos

About this report

The New Hampshire Retirement System (NHRS, the retirement system) is pleased to present the Summary Annual Financial Report for the fiscal year ended June 30, 2014. This report is presented in conformity with Generally Accepted Accounting Principles and is intended to provide an overview of NHRS financial, investment, and demographic information in an easy-to-understand format.

During the fiscal year ended June 30, 2014, NHRS adopted the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67). GASB 67 requires disclosures of total pension liability, fiduciary net position, net pension liability, and annual money-weighted rate of return on plan investments, among other disclosures. The new disclosures related to GASB 67 can be found on page 9 of this report.

About NHRS

NHRS was established in 1967 as a contributory, defined benefit plan. The plan provides lifetime pension benefits that are determined at retirement under formulas prescribed by law; the pension benefit is not based on investment returns or contributions.

The retirement system provides service retirement, early retirement, disability retirement, and vested deferred retirement benefits, as well as pre- and post-retirement death benefits. It also provides eligible retirees and beneficiaries with other post-employment benefits (OPEB). This benefit consists of a post-retirement Medical Subsidy, which is a payment made by NHRS to an eligible retired member's former employer toward the cost of the retired member's health insurance premium.

Benefit formulas and eligibility requirements are set by state law (RSA 100-A). The retirement system is also governed by administrative rules and policies, and the Internal Revenue Code.

Retirement system members are state, county and municipal employees, teachers, police officers, and firefighters. The membership consists of two groups, Group I (Employee and Teacher) and Group II (Police and Fire).

NHRS has 48,307 active, contributing members. Group I members make up 88 percent of the total active membership. Group II members make up 12 percent of the total active membership.

NHRS has 31,054 pension recipients and 10,243 retirees and/or beneficiaries receiving a post-retirement Medical Subsidy.

Benefits are funded by member contributions, employer contributions, and net investment returns. Investment returns have historically provided the majority of funding for pension benefits.

Learn more

The information included in this report is taken from the retirement system's more detailed Comprehensive Annual Financial Report (CAFR), which is prepared in accordance with Generally Accepted Accounting Principles. Copies of the CAFR, the summary CAFR, and the NHRS annual investment report may be viewed or downloaded at www.nhrs.org.

The year in review...

Financial Highlights

- Plan net position increased by $986.1 million (15.3%) from the prior year's net position, reflecting the improvement in the financial market.
- Net investment income during fiscal year 2014 was $1,098.0 million, a $279.8 million (34.2%) increase over the prior fiscal year. The net investment income for fiscal year 2014 reflects a time-weighted return for the total fund during the year of 17.6% compared to a time-weighted investment return of 14.5% for the fiscal year ended June 30, 2013.
- The total contributions received during the fiscal year were $576.3 million. For fiscal year 2013, total contributions received were $496.0 million. Employer contributions for fiscal year 2014 increased to $377.3 million (26.0%) compared with employer contributions in fiscal year 2013 of $299.5 million. The increase in employer contributions in fiscal year 2014 was primarily due to higher contribution rates. Member contributions were $199.0 million in fiscal year 2014, an increase of (1.3%) over fiscal year 2013 member contributions of $196.5 million. The increase in member contributions is primarily due to an increase in earnable compensation. Overall member normal contributions increased by $3.1 million (1.6%) over the prior fiscal year. Voluntary member contributions decreased by $0.5 million (-9.68%) over fiscal year 2013.
- Benefits paid during fiscal year 2014 were $653.3 million, an increase of 3.9% over the benefits paid in fiscal year 2013 of $628.6 million. The increase in benefits paid in fiscal year 2014 is primarily due to an increase in the number of retirees and increased average benefit levels for those new retirees.

Legislative Changes

Legislation was enacted in the 2014 legislative session which:

- Amended the definition of "Employer" to clarify that political units that combine payroll operations continue to be considered separate employers for the purposes of administering benefits under RSA 100-A; and the definition of "Employee" to clarify that "nonclassified" state employees are included.
- Changed the cost calculation to purchase most types of prior service credit.
- Clarified that members do not continue to earn service credit while on a salary continuance following termination.
- Clarified that compensation for "extracurricular and instructional activities" is Earnable Compensation for full-time paraprofessionals and other full-time school support staff, as well as for teachers.
- Created employer penalties for incorrect data submission of active member records and late or incorrect reporting of retiree data.
- Exempted employers from reporting hours worked and compensation paid for retirees serving as elected officials.
- Allowed retirees who have worked fewer than 1,300 hours in a calendar year to exceed the 32-hour per week statutory limit on part-time employment "while providing assistance during an emergency."
- Allowed the retirement system to make a payment of $15,000 or less to the next of kin of a deceased member when no probate proceedings are pending.
- Granted NHRS electronic access to a limited data set of death, marriage, and divorce information of members and beneficiaries held by the Division of Vital Records Administration for purposes of administering RSA 100-A.
- Repealed RSA 100-A:17, relative to the transfer of funds from predecessor systems; RSA 100-A:19, relative to the optional benefit program for eligible call, substitute, or volunteer firefighters; and, RSA 100-A:41-b, relative to previously paid, one-time supplemental allowances for certain retired Group II members.

Major Accomplishments

- Initiated phase II of the Process Improvement Project ("PIP"), which is focused on implementing opportunities for improvement identified and documented in phase I.
- Improved efficiency and reduced cost through putting vendor contracts for custodial banking, actuarial consulting, and retiree payroll processing out to bid.
- Improved and automated several employer payroll reporting and insurance functions, saving substantial time and reducing the opportunities for errors.
- Successfully developed and coordinated NHRS legislative agenda for 2014 session to address statutory ambiguities.
- Initiated a project to upgrade the retirement application process from just a manual paper process to an automated online process , thereby giving members more options.
- Completed a direct deposit initiative to reduce the number of paper checks issued each month to retirees, resulting in a 30%-plus reduction in paper checks issued.

Summary Comparative Statements of Fiduciary Net Position: Combined Pension and OPEB Plans

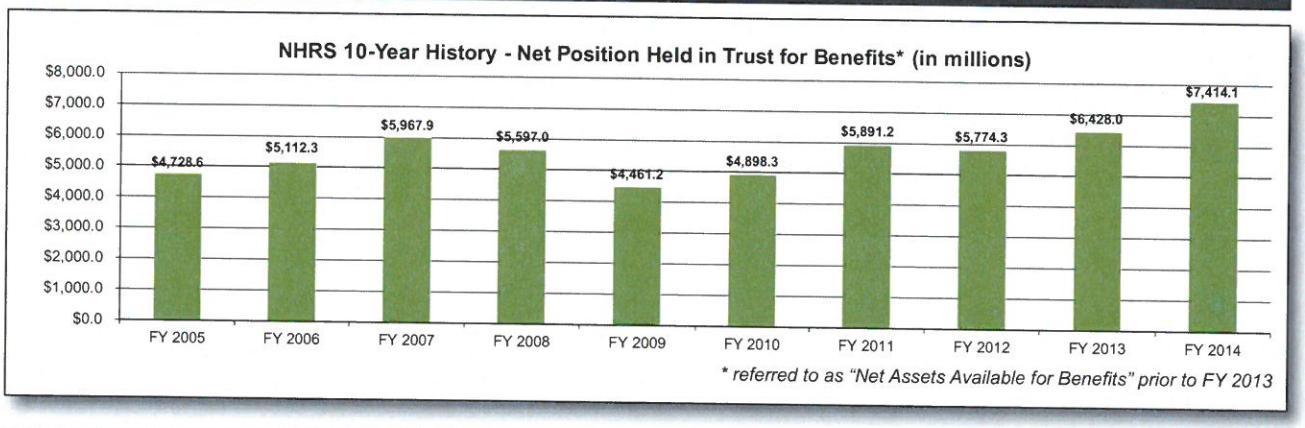
($ in millions)

The Statements of Fiduciary Net Position provide a summary of what NHRS owns (assets) and what it owes (liabilities) as of the end of the fiscal year.	As of June 30, 2014	As of June 30, 2013	Amount Increase (Decrease)	Percent Increase (Decrease)
Cash	$ 9.9	$ 7.7	$ 2.2	28.6%
Receivables	109.6	364.5	(254.9)	(69.9%)
Investments	7,334.0	6,353.1	980.9	15.4%
Other Assets	0.2	0.3	(0.1)	(33.3%)
Total Assets	**$7,453.7**	**$6,725.6**	**$ 728.1**	**10.8%**
Other Liabilities	39.6	297.6	(258.0)	(86.7%)
Total Liabilities	**$ 39.6**	**$ 297.6**	**$ (258.0)**	**(86.7%)**
Net Position Restricted for Pension and OPEB	**$7,414.1**	**$6,428.0**	**$ 986.1**	**15.3%**

Summary Comparative Statements of Changes in Fiduciary Net Position: Combined Pension and OPEB Plans

($ in millions)

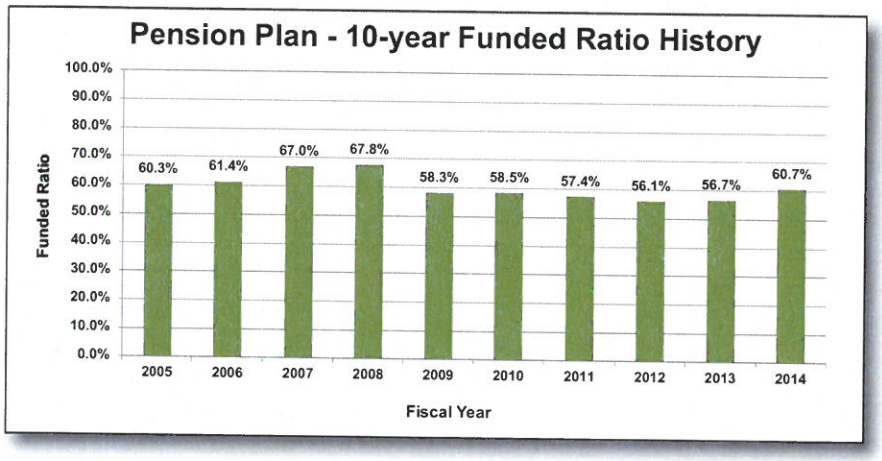
The Statements of Changes in Fiduciary Net Position provide a summary of the flow of money into (additions) and out of (deductions) the fund throughout the fiscal year.	As of June 30, 2014	As of June 30, 2013	Amount Increase (Decrease)	Percent Increase (Decrease)
ADDITIONS:				
Employer Contributions	$ 377.3	$ 299.5	$ 77.8	26.0%
Member Contributions	199.0	196.5	2.5	1.3%
Net Investment Income (Loss)	1,098.0	818.2	279.8	34.2%
Other Income	1.1	1.0	0.1	10.0%
Total Additions to Net Position	**$1,675.4**	**$1,315.2**	**$ 360.2**	**27.4%**
DEDUCTIONS:				
Benefits Paid	$ 653.3	$ 628.6	$ 24.7	3.9%
Refunds of Contributions	26.1	23.2	2.9	12.5%
Administrative Expense	7.4	7.0	0.4	5.7%
Other Deductions	2.5	2.7	(0.2)	(7.4%)
Total Deductions from Net Position	**$ 689.3**	**$ 661.5**	**$ 27.8**	**4.2%**
Total Changes in Net Position	**$ 986.1**	**$ 653.7**	**$ 332.4**	**50.8%**



Actuarial Funding Progress

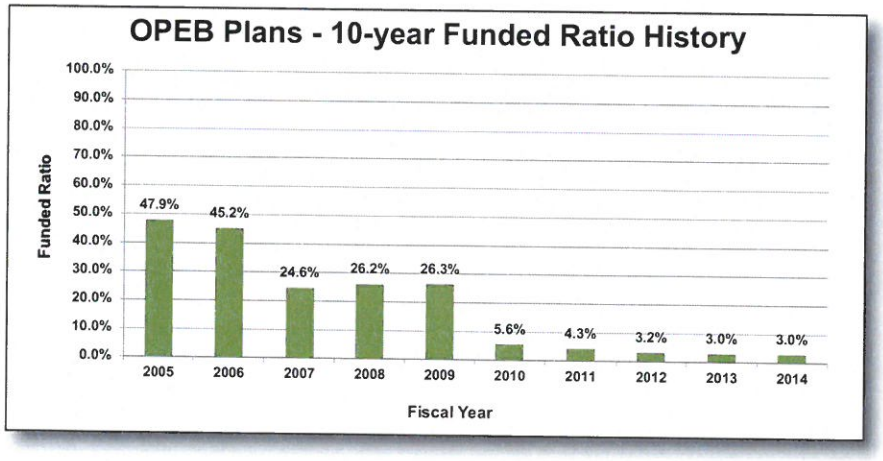
The primary measure of a benefit plan's progress is its funded status, or funded ratio, which compares the assets available to the benefits that must be paid. As of June 30, 2014, the funded ratio for the pension plan was 60.7%. This means that the actuarial value of the retirement system's assets is 60.7% of the projected amount needed to pay for both current retirees and the accrued benefit for future retirees.

The OPEB plans, more commonly known as the Medical Subsidy, have a funded ratio at June 30, 2014, of 3.0%. This low funded ratio is because OPEB is funded, pursuant to statute, at the minimum necessary to remain solvent (see note below the OPEB graph). The OPEB benefit covers a retiree population that is fixed and the benefit is no longer available for the majority of current active members.



Pension Highlights

- The unfunded actuarial accrued liability for the Pension Plan was $4,344.6 million at June 30, 2014.
- The actuarial value of assets available to pay pension benefits was $6,700.6 million at June 30, 2014.
- The Pension Plan funded ratio was 60.7% at June 30, 2014.



OPEB Highlights

- The unfunded actuarial accrued liability for the OPEB Plans was $714.1 million at June 30, 2014.
- The actuarial value of assets available to pay OPEB benefits was $21.3 million at June 30, 2014.
- The OPEB Plans' funded ratio was 3.0% at June 30, 2014.

Funded ratios shown in both graphs above for fiscal years prior to 2007 were calculated using a different actuarial method and therefore are not comparable on a consistent basis.

Beginning in FY 2010, the OPEB plans have been funded by allocating the lesser of 25% of all employer contributions made in accordance with RSA 100-A:16 or the percentage of employer contributions determined by the actuary to be the minimum rate necessary to maintain the benefits provided. Since FY 2010, the minimum rate necessary was the lesser of the two options.

In addition to the actuarial funding progress data noted above, this year's Summary CAFR includes new financial accounting information required under Governmental Accounting Standards Board (GASB) statement No. 67, which deals with financial reporting for pension plans. It is worth emphasizing that GASB 67 reporting is for accounting purposes only and does not impact employer contribution rates or the statutory funding plan in place to pay down the NHRS unfunded liability. Additional information on GASB reporting can be found on page 9 of this report.

Investment Performance

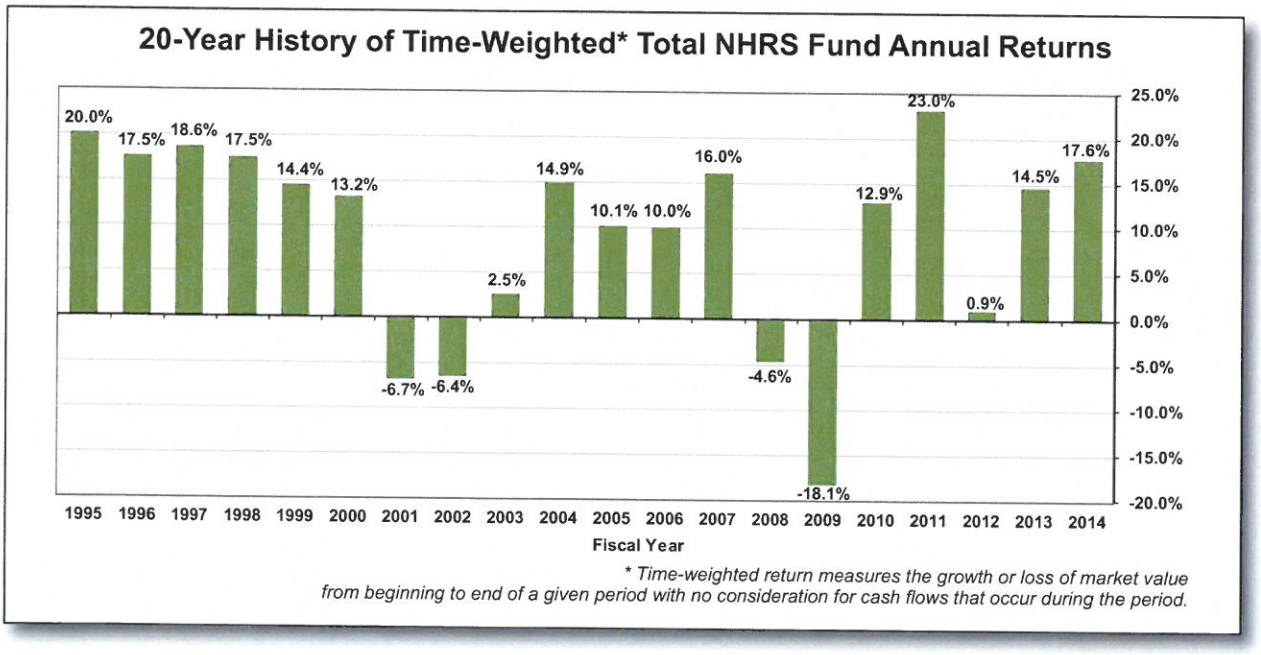
Investment returns are reported net of investment expenses (unless specifically noted) and are measured against a total fund custom index. The total fund custom index (see below) is a blend consisting of major market indices in proportion to the retirement system's asset allocation; this index changes as strategies and objectives evolve over time.

The results of the plans' investment program for the period ended June 30, 2014, are as follows:

- For fiscal year 2014, the total fund investment return of 17.6% underperformed the total fund custom index return of 18.4%. For this period, the individual asset classes generated the following performance: domestic equity 24.9%; non-U.S. equity 15.9%; fixed income 7.0%; real estate 17.1%; and alternative investments 12.7%.
- The gross-of-fees return of 17.9% for this period ranked in the second decile of the public fund universe.
- For the five-year period ended June 30, 2014, the total fund investment return of 13.5% outperformed the total fund custom index return of 13.3%.
- The gross-of-fees return for the five-year period ending June 30, 2014 was 13.8%, which also ranked in the second decile of the public fund universe.

		Annualized		
	Current Year 2014	3-Year	5-Year	10-Year
Total NHRS Fund	17.6%	10.7%	13.5%	7.5%
Total Fund Custom Index*	18.4%	11.0%	13.3%	7.7%

** For June 30, 2014, the total fund custom index consisted of: 42.2% Russell 3000 Index (U.S. Equity); 20% MSCI All Country World Ex-U.S. Index (Non-U.S. Equity); 25% Barclays Capital Universal Bond Index (Fixed Income); 8.6% NCREIF Property Index plus 50 basis points (Real Estate); and 4.2% S&P 500 Index plus 5% (Alternative Investments).*



Diversification of Investments

An asset allocation is designed to diversify an investment portfolio to minimize risk and maximize performance.

The New Hampshire Retirement System Board of Trustees, with research and input from NHRS investment staff, outside experts, and a recommendation from the Independent Investment Committee (IIC), set an investment policy that includes asset allocation targets and acceptable ranges.

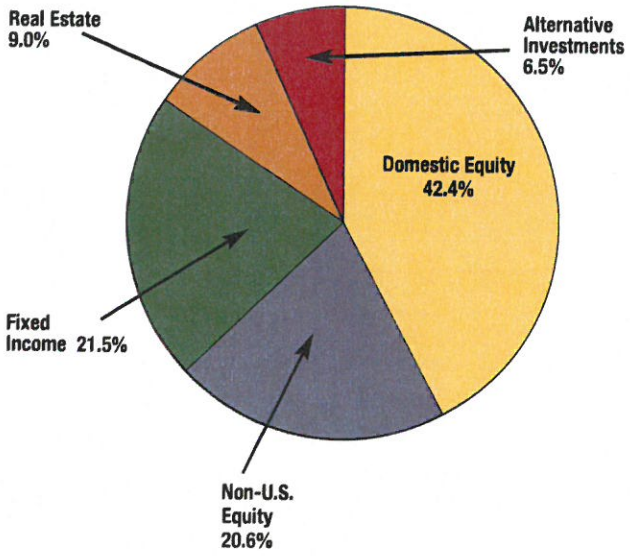
The IIC manages investments based on the Trustees' policies; continuously monitors and evaluates performance; and makes determinations regarding the hiring and retention of fund managers.

The actual and target asset allocations as of June 30, 2014 for NHRS are shown on the charts below. Domestic Equity is primarily made up of stocks in U.S. companies. Non-U.S. Equity contains stocks of foreign companies. Fixed Income includes bonds and cash with the objectives of providing current income and preserving capital. Real Estate includes directly-owned properties as well as investments in commingled real estate funds. Alternative Investments primarily include private equity and private debt limited partnerships that are not traded in the public market.

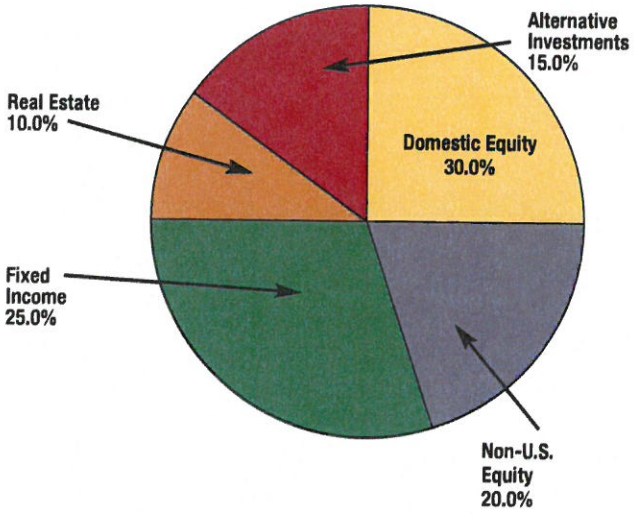
More detailed information regarding the NHRS investment portfolio can be found in the Comprehensive Annual Financial Report or the Comprehensive Annual Investment Report, which are available at www.nhrs.org.

Actual Asset Allocation Versus Target Asset Allocation

Actual Asset Allocation as of June 30, 2014



Target Asset Allocation as of June 30, 2014



Member and Retiree Data

PENSION PLAN

	E Employee	T Teacher	P Police	F Fire	Total
Active Members					
Average Age	49.2	46.3	39.3	41.5	47.1
Average Service	11.2	13.4	11.1	13.3	12.1
Average Annual Pay	$44,347	$57,482	$64,930	$71,445	$51,916
Retired Members					
Average Age	71.1	69.8	63.1	65.3	69.5
Average Annual Pension	$12,932	$21,401	$35,154	$36,562	$19,407
Total Membership					
Active	24,545	17,986	4,166	1,610	48,307
Retired	15,314	10,965	3,282	1,493	31,054
Terminated - Vested	704	531	55	7	1,297

OPEB PLANS
(Medical Subsidy)

		One-Person Coverage		Two-Person Coverage	
	Number of Retirees	Pre-65	Post-65	Pre-65	Post-65
	10,243	1,120	7,736	920	467

GASB Statement No. 67

During the fiscal year ended June 30, 2014, NHRS adopted the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67).

GASB 67 requires disclosures of total pension liability, fiduciary net position, net pension liability, and annual money-weighted rate of return on plan investments, among other disclosures. The most significant change resulting from GASB 67 is the calculation of the net pension liability (NPL). For accounting purposes, the NPL replaces the Unfunded Actuarial Accrued Liability (UAAL) and is calculated by subtracting the fiduciary net position at market value – as opposed to the actuarial value of assets used to determine the UAAL, which "smooths" gains or losses over five years – from the total pension liability.

Due to the timing of GASB 67 implementation audit requirements, the total pension liability (for GASB purposes) of $11,144.2 million is based on an actuarial valuation performed as of June 30, 2013, and rolled forward to the measurement date of June 30, 2014. The roll-forward procedure increases the June 30, 2013, actuarial accrued liability with estimated benefits earned and interest and decreases it with actual benefits and administrative expenses paid. The fiduciary net position available to pay pension benefits at June 30, 2014, was $7,390.6, resulting in a net pension liability of $3,753.6 million and a funded ratio of 66.3% at June 30, 2014. For fiscal year 2013, the total pension liability based on the June 30, 2013, actuarial valuation was $10,708.8 million. The plan fiduciary value of assets available to pay pension benefits at June 30, 2013, was $6,405.0 million resulting in a net pension liability of $4,303.8 million and a funded ratio of 59.8%. The money-weighted rate of return, which shows investment performance net of fees and is adjusted for the timing of cash flows and the changing amounts actually invested, was 17.6%.

It is important to note that the disclosures related to GASB 67 are accounting measurements, not actuarial measurements of the funded status of the plan, and are not used to develop employer contribution rates.

NHRS

New Hampshire Retirement System

Contact Information

New Hampshire Retirement System
54 Regional Drive, Concord, NH 03301-8507
Telephone: (603) 410-3500 • Toll Free: (877) 600-0158 • Fax: (603) 410-3501
Email: info@nhrs.org • Website: www.nhrs.org

Hours of Operation
Monday–Friday
8:00 a.m. to 4:00 p.m.