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Answering Some Common Questions About NHRS

A message from Interim Executive Director Kim France

By KIM FRANCE, Interim Executive Director

In the past two months, I've had the opportunity to present "NHRS 101" information sessions to hundreds of interested parties – lawmakers, members, employers, retirees, and anyone else who's chosen to attend.

With nearly two-dozen pension-related bills introduced in the state Legislature this year, "NHRS 101" was developed to provide a broad, factual overview of the New Hampshire Retirement System (NHRS, the retirement system). Among the topics included in the sessions are plan governance, membership data, investment policy, contribution rates, and a look at some of the challenges NHRS is facing.

Over the course of these sessions, a number of common questions arose. In keeping with the retirement system's mission of providing factual data and objective analysis, I'd like to share some of them here:

How did NHRS end up with an unfunded pension liability?

The unfunded liability, valued at \$3.7 billion as of June 30, 2010, is essentially the difference between the retirement system's current assets and its projected benefit obligations.

While a portion of the unfunded liability is related to the 2008 fiscal crash and the sluggish stock market of the past decade, a pair of public policy decisions account for much of the liability. The first is a flawed funding methodology in effect from 1991-2007 that resulted in artificially low employer contribution rates. The second is the diversion, known as "gain sharing," of about \$900 million in investment returns into the Special Account – which funds non-pension benefits such as cost-of-living adjustments – over roughly the same period.

In 2007, the funding methodology was changed to a more realistic, standard approach, and the method for gain sharing was revised to essentially end diversions from the pension trust fund for years to come. However, even with those significant legislative changes, it will take many years to restore the retirement system to an acceptable funded ratio. While existing unfunded benefit obligations are guaranteed in the state Constitution, the good news is these benefits aren't going to be disbursed all at once, so the funds for them do not need to be recouped all at once, either. To claim that NHRS is bankrupt is untrue.

How does the financial status of the retirement system affect state and local budgets?

Most NHRS employers budget on an annual basis; the State of New Hampshire is on a two-year budget cycle. A pension system, however, operates over a much longer time horizon. Because of the ongoing nature of pension obligations, the cost of public policy decisions made decades ago about benefits and funding is being felt now, on the heels of the worst economic crisis since the Great Depression.

New Hampshire is fortunate that the Legislature took significant steps to stabilize the retirement system in recent years, but the fiscal impact of those changes, as well as any changes going forward, will be far greater in the long term than in the near term.

What will proposed legislative changes mean for members?

The scope and complexity of current legislation has made many members anxious and they have reached out to NHRS staff for guidance on how they may be affected. Once a law is enacted, the retirement system will have information on how that law will affect members and employers, but at this point in the legislative process there are so many moving parts that it would be irresponsible to delve into hypothetical scenarios. This isn't an answer many people like to hear, but because NHRS administers – and doesn't make – the law, it is the only answer the retirement system can provide in good faith.

These are only three of the thoughtful questions posed during our “NHRS 101” sessions. I hope these answers provide a useful context as you follow the public discourse in the coming months.

To read more about the retirement system, or view a narrated PowerPoint presentation of “NHRS 101,” visit www.NHRS.org and click on “About NHRS.”

Kim France is the interim executive director the New Hampshire Retirement System.

ABOUT NHRS

The New Hampshire Retirement System provides retirement, disability, and death benefits to its eligible members and their beneficiaries. The State of New Hampshire and more than 475 local government employers

participate in the retirement system for their employees, teachers, firefighters, and police officers. NHRS has approximately 50,500 active members and 26,000 pension recipients. NHRS administers a defined benefit plan qualified as a tax-exempt entity under section 401(a) and 501(a) of the Internal Revenue Code.

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