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NHRS Trustees Lower Assumed Rate of Return

Rate change is part of a package of adjustments to actuarial assumptions

CONCORD, N.H. – The Board of Trustees of the New Hampshire Retirement System (NHRS, the retirement system) voted May 10, 2011, to revise the retirement system’s assumed rate of return on investments, lowering the rate from 8.5 percent to 7.75 percent.

The new assumptions will be used in the retirement system’s actuarial valuation for the fiscal year ending June 30, 2011, which will be completed in the fall. By statute, that valuation will be used to set employer contribution rates for fiscal years 2014 and 2015.

The change to the assumed rate of return was based on data and recommendations contained in the recently completed five-year experience study conducted by Gabriel Roeder Smith & Co. (GRS), the retirement system’s consulting actuary. The change was part of a package of recommendations from GRS adopted by Trustees that also adjusted other demographic and economic assumptions to better reflect the retirement system’s actual experience.

“The Trustees have a statutory obligation as fiduciaries to adopt actuarially sound assumptions, including the assumed rate of return. The board’s decision to adopt these assumptions is consistent with its duty to act in the best interests of the retirement system over the long-term,” said Kim France, Interim Executive Director of NHRS. “This decision has been in progress for months and took into account information from many independent, expert sources.”

In considering the assumed rate of return, NHRS Trustees heard presentations from GRS, as well as NHRS’ investment consultant, NEPC. GRS, in its role as consulting actuary, recommended that Trustees adopt an assumed rate of return within the range of 7.5 percent and 8.0 percent. The retirement system’s Independent Investment Committee recommended setting the rate at 7.75 percent.

The last time the assumed rate of return was changed was Nov. 15, 2005, when it was lowered from 9 percent to 8.5 percent.

According to the most recent data compiled by the National Association of State Retirement Administrators (NASRA) in its survey of the nation's top 126 public pension funds, 17 funds have a 7.75 percent assumed rate of return. Overall, the return assumptions among public pension plans range from 7 percent to 8.5 percent, with 8 percent being the most common assumption.

Actuaries conduct experience studies on a regular basis to assess the extent to which their assumptions reflect actual plan experience. New Hampshire law requires the retirement system's actuary to conduct an experience study every five years.

GRS calculates NHRS' funded ratio, unfunded liability, and employer rates based on assumptions about many future events, such as the age when members will retire, their rate of salary growth, how long they'll live after retirement, and how much the plan's investments will earn. Of all the assumptions used to estimate the cost of a public pension plan, none has a larger impact on the plan's costs than the investment return assumption. This is because over time, earnings from investments account for a majority of revenues – more than 60 percent, in the case of NHRS.

The 7.75 percent rate represents what NHRS Trustees believe the plan can realistically earn from its investments on an annual basis, when averaged over the long-term. In any given year, investment returns are likely to be higher or lower than the long-term assumed rate.

After experiencing investment losses as a result of the recession in fiscal years 2008 and 2009, NHRS investment returns bounced back in fiscal 2010, when the retirement system realized a 12.9 percent return. For the first three quarters of fiscal 2011, NHRS' total fund has realized a 21.8 percent return.

Since 1975, NHRS has realized 10.1 percent return on marketable assets.

The five-year experience study, which contains details of the other economic and demographic changes adopted by Trustees, is available online at

http://www.nhrs.org/documents/NHRS_5_Year_Experience_Study_March_2011.pdf

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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