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Setting the Facts Straight on Unfunded Liability

NHRS responds to claim concerning financial status of trust fund

CONCORD, N.H. – A recent online news report claiming that the New Hampshire Retirement System (NHRS, the retirement system) will run out of money in 2022 is misleading.

The source for the article – “11 State Pension Funds that May Run Out of Money” (www.yahoo.com, Oct. 18) – is a May 2010 paper by Joshua Rauh, a finance professor at Northwestern University. The article failed to explain that Prof. Rauh’s paper presents an academic “what if” scenario intended to explore the impact of unfunded pension liabilities, not a business analysis of the specific facts and circumstances of any one system. The paper assumes there will be no future contributions to fund these liabilities, which would inevitably lead to a pension system running out of money.

This key assumption – as well as others contained in the paper – does not reflect the reality in New Hampshire. NHRS has a constitutional mandate to collect actuarially sound rates. This means NHRS contribution rates are designed to capture the cost of newly earned benefits as they accrue, as well as pay down existing unfunded liabilities.

In highlighting the danger of unfunded public pension liabilities, Prof. Rauh’s paper not only raises important concerns, it also underscores the foresight behind the necessary – and sometimes difficult – changes that have been made in recent years to address the financial health of the New Hampshire Retirement System.

This is not to say that NHRS does not face continuing challenges. The Legislature and the NHRS Board of Trustees have addressed many of the long-term structural issues affecting the retirement system, but this work is ongoing. Moving forward, NHRS will continue to provide data and analysis to the Legislature as it deliberates on issues related to the retirement system.

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 NHRS for their employees, teachers, firefighters, and police officers. NHRS has approximately 51,000 active members and 24,500 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.

Supplemental information:

- Read Prof. Joshua Rauh’s paper, “Are State Public Pensions Sustainable?” : http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1596679
- Read a critique of Prof. Rauh’s paper from the National Association of State Retirement System Administrators (NASRA): <http://nasra.org/resources/RauhResponseFinal.pdf>
- Read more about the impact of the unfunded accrued actuarial liability on 2012-13 NHRS employer contribution rates: http://www.nhrs.org/documents/FAQs_for_2012_13_Rates_FINAL.pdf

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