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A Message from the Executive Director

NH Retirement System Provides Financial Security to Public Sector Retirees

(Concord, N.H.) The New Hampshire Retirement System (NHRS, "the System") defined benefit plan (DB) will continue to meet its current and future pension obligations with a funded ratio of 67%. This ratio is similar to a mortgage that is already two-thirds paid off, with 30 more years to pay the balance, and NHRS projections for plan funding indicate an 85-95% funding ratio within the next 15 years. The System's Board of Trustees exercises prudent management of trust fund assets to ensure that members' benefits will be paid when they retire.

More than 51,000 employees, firefighters, police officers and teachers are members of NHRS through their state and local government employers, including the State of New Hampshire and nearly 500 political subdivision employers such as cities, counties, school districts, towns and other units of government. The System's $5 billion trust fund pays $318 million annually in lifetime benefits to 20,000 retirees and beneficiaries.

With a DB plan like NHRS, benefits are based on a formula which considers an individual's service and salary. Contributions, both member and employer, and investment assets are not variables in determining the amount of a retiree's pension, but they do fund retirement benefits. Investment returns comprise approximately 75% of DB payouts, while employee and employer contributions equal approximately 25% of DB payouts. That means for every dollar retirees receive in their pension payment, only twenty-five cents of that is funded by member and employer contributions; the remaining seventy-five cents is funded by the plan's investment assets. Even when the portion of a retiree's pension that represents member and employer contributions is depleted, the pension is still payable to retirees, or qualified beneficiaries, for their lifetime.

Although many private sector employers are no longer offering DB plans due to cost and the burden of complying with federal regulations, government employers are not subject to the stringent regulations, and as larger employers they are able to keep costs lower. The administrative cost of public DB plans is substantially lower than a typical defined contribution (DC) plan. National associations representing public retirement plans indicate that the median cost of a DC plan is approximately 1.40% of assets, while the median cost of a statewide public DB plan is approximately 0.30%. The higher DC plan expense reduces the assets available for benefits, and, therefore, individuals bear all of the market and shortfall risk.

DB plans are an important element in government's ability to attract and retain quality employees. By rewarding longevity, DB plans assist employers in keeping long-term employees and fostering employee loyalty. In recent years amendments to Internal Revenue Code regulations and state law have increased the portability of New Hampshire's DB plan to enable members to transfer their service to not only other employers within the state, but also to and from out-of-state public pension plans. The DB plan also offers its eligible members disability retirement benefits and death benefits for beneficiaries of members who die while they are in service.

Public DB plans promote economic activity due to their superior investment returns relative to the returns generated by individual investors participating in self-directed accounts. These higher returns increase the funds available for benefits, which are distributed across broad geographical areas in the form of regular, ongoing payments. NHRS promotes economic activity and financial security in New Hampshire by paying more than $243 million in annual lifetime benefits to nearly 17,000 individuals who have retired from Granite State public sector careers and continue to live in the state. (An additional $75 million in annual annuities is paid to retirees who have relocated.)

For many of its 51,000 active members, NHRS is their primary source of future financial security. Changing from a DB plan to a DC plan may expose these individuals to the dangers of insufficient retirement savings.

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