NEW HAMPSHIRE RETIREMENT SYSTEM

A Component Unit Of The State Of New Hampshire*

Comprehensive Annual Financial Report For The Fiscal Year Ended June 30, 2002

35 Years of Service to Members

***Please refer to footnote on the title page.**

CLICK HERE TO RETURN TO TABLE OF CONTENTS

NTRODUCTORY
ECTION

Cover Photo: Scenic view of Marlow, NH. Photo courtesy of NHDTTD/Arthur Bouffard.

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Comprehensive Annual Financial Report of the New Hampshire Retirement System

A Component Unit of the State of New Hampshire*

For The Fiscal Year Ended
June 30, 2002

Eric Henry
Executive Director

J.P. Singh
Director of Finance

* In accordance with Governmental Accounting Standards Board (GASB) 14, the New Hampshire Retirement System is a component unit of the State of New Hampshire for financial reporting purposes because the State has budget oversight over administrative expenses.

Prepared by
New Hampshire Retirement System
4 Chenell Drive
Concord, New Hampshire 03301-8509
www.state.nh.us/retirement/

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Table of Contents

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

New Hampshire Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Letter From The Chairman

NEW HAMPSHIRE RETIREMENT SYSTEM

EDWARD J. THEOBALD
Chairman, Board of Trustees
(603) 427-0911

ERIC HENRY
Executive Director

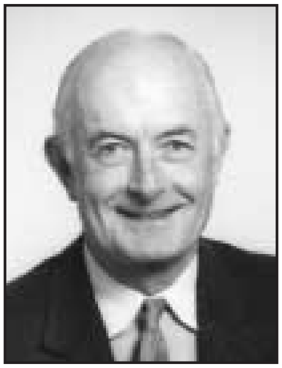
J. P. SINGH
Director of Finance

The Granite State

November 8, 2002

To: The Members of the New Hampshire Retirement System

As Chairman of the Board of Trustees of the New Hampshire Retirement System (NHRS), I am pleased to present the audited Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. The report presents the combined assessment of investment results and financial condition of the Pension Plan and the Postretirement Medical Plan. The data contained in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial condition and results of operations of the NHRS.



Edward J. Theobald
Chairman
Board of Trustees

Each participant of our System deserves the security of well-funded benefit plans. The current funded status of the NHRS, the actuarial procedures adopted by the Board on a continual review basis, and the prudent investment strategies of the Board are all designed to meet this very important objective.

The NHRS'S diversified investment policy, on balance, continues to be sound. The U.S. economy has suffered over the last fiscal year as evidenced by the overall domestic and international equity market returns (S&P 500 Composite Index and MSCI EAFE Index) of -18.0% and -9.5% respectively. The NHRS portfolio is broadly diversified to provide protection against such volatility in the capital market. The investment policy adopted by the Board of Trustees is designed to generate competitive total returns on a long-term basis while maintaining adequate levels of liquidity and risk. The total fund investment return for fiscal year ended June 30, 2002 was -6.4%, and the returns for the five and ten year fiscal year periods were 5.6% and 9.8% respectively. The five year return ranks slightly below the median among 45 public pension plans surveyed, however, the ten year return ranks in the first quartile among 41 public pension plans.

The role of the Board of Trustees is to ensure that the financial interest of all plan participants is adequately safeguarded over the long term. To this end, the investment earnings over the years have been adequate and employer contribution rates, while increasing, remain reasonable.

Using a conservative measurement to assess the actuarial balance of the System as of June 30, 2002, the plan assets are at 73.9% of the System's projected pension liability. A more appropriate measure is the System's present pension liability funding status based on the Board of Trustees funding goal. At June 30, 2002, the plan assets were at 82.1% of the System's present pension liability. These funding ratios are indicative of the current status of the economy.

We are mindful, nevertheless, that the NHRS operates in a dynamic economic environment. The challenges of investing NHRS funds strategically to achieve above average returns balanced with controlled risk in an increasingly complex and competitive global economy are greater than ever. The Board strives to minimize the impact of these external influences by diversifying among a broad range of asset classes and by employing active portfolio managers with recognized expertise in managing each of these asset classes. Each manager is expected to outperform appropriate market indices over a full market cycle of three to five years. In addition, the Board continually monitors its operating environment, keeping a watchful eye on regulations, court decisions, and legislation for the effects they may have on the operation of the NHRS.

The Board of Trustees is appreciative of the hard work and continued dedication of the Administrative Staff. The entire Administrative Staff deserves recognition in meeting the Board of Trustees goal of providing quality service to all the plan participants.

For the year ended June 30, 2002, 16,670 retirees and beneficiaries received pension and medical benefits totaling $248.4 million. There are 53,970 active and inactive members participating in the NHRS.

During the fiscal year the NHRS made significant progress on several major initiatives:

First, we have developed the use cases that will drive the design of our benefits transaction processing system. We have begun the design phase and are currently on-schedule for a mid-2004 implementation. Final implementation will allow us to decommission our aging mainframe solution and to meet the increasing demands for member services associated with the onslaught of baby boomers who are rapidly approaching retirement.

Throughout the fiscal year, we continued the ongoing redesign of our organizational structure and business processes. The Board of Trustees created a new executive-level position to assist with the alignment of the various components of the member services process and to head the new integrated Office of Member Services.

Finally, and equally important, NHRS is reviewing its investment processes to assure that we have the necessary processes and procedures in place to manage investment risks, income, and liquidity. Fiduciary standards dictate that our investment processes keep pace with the increasingly complex and dynamic investment environment.

I also want to recognize the commitment of my fellow Board members, who have worked so diligently to ensure the successful operation of the NHRS. The Board is keenly aware that many forces will shape and influence the NHRS in the coming years and that we constantly need to stay ready to meet these challenges.

The Board, with help from the System's actuary and investment consultants, has crafted an investment strategy designed to produce above average returns with moderate overall portfolio risk exposure to maintain the financial stability of the NHRS trust fund.

Sincerely,

Edward J. Theobald
Chairman of the Board of Trustees
New Hampshire Retirement System

4 CHENELL DRIVE, CONCORD, NEW HAMPSHIRE 03301-8509
TELEPHONE 271-3351 OFFICE HOURS 8:00-4:00
TDD Access: Relay NH 1-800-735-2964

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Board Of Trustees

Edward J. Theobald
Chairman
Public Member
August 1997 to July 2003

Andrea Amodeo-Vickery, Esq.
Public Member
February 1999 to July 2004

The Honorable Merton S. Dyer
New Hampshire House of Representatives
October 1995 to January 2003

Craig H. Wiggin
Police Officer Member
March 2002 to July 2003

The Honorable Beverly Hollingworth
New Hampshire Senate
December 2000 to January 2003

J. David McLean
Firefighter Member
September 1999 to July 2003

Charles Koontz
Employee Member
August 2002 to July 2004

Claire Gervais
Employee Member
September 1999 to July 2003

Joseph G. Morris
Teacher Member
January 1990 to July 2002

Brian Morrissey
Firefighter Member
February 2001 to July 2004

Sandra Amlaw
Teacher Member
June 2002 to July 2003

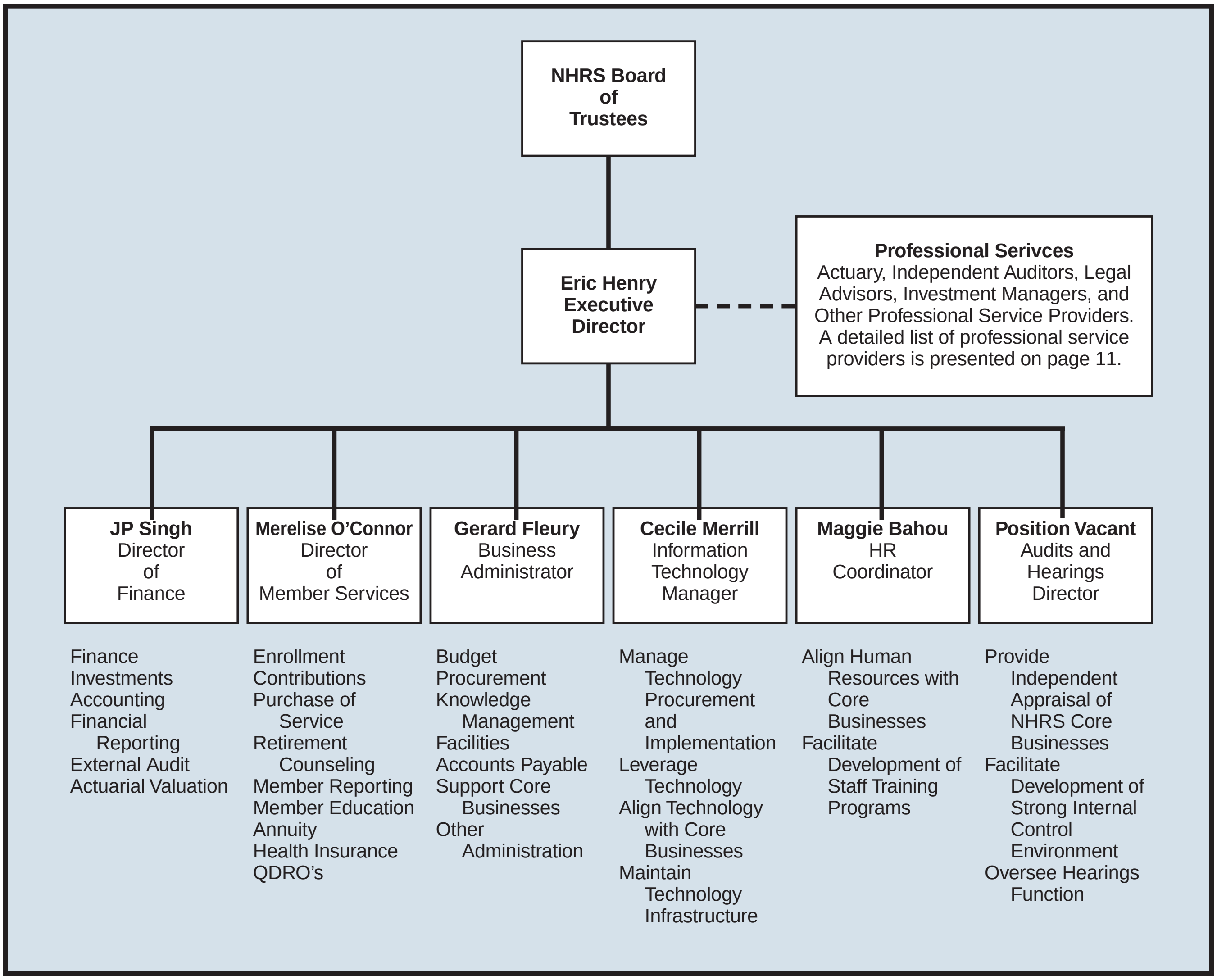
Dale K. Robinson
Police Officer Member
December 1993 to July 2002

Michael Ablowich
State Treasurer
March 2002 ex officio

Back row, left to right: Joseph G. Morris, Dale K. Robinson, Charles Koontz, Craig H. Wiggin, Brian Morrissey, Representative Merton S. Dyer, J. David McLean. Front row, left to right: Sandra Amlaw, Chairman Edward J. Theobald, Andrea Amodeo-Vickery, Claire Gervais. Absent when photo was taken: Senator Beverly Hollingworth and State Treasurer Michael Ablowich.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Administrative Organization



CLICK HERE TO RETURN TO TABLE OF CONTENTS

Professional Managers, Advisors and Service Providers

DOMESTIC EQUITY MANAGERS

Fred M. Alger Management Company
New York, New York

American Express Asset Management Group, Inc.
Minneapolis, Minnesota

Ark Asset Management Company, Inc.
New York, New York

Dalton, Greiner, Hartman, Maher & Co.
New York, New York

Davis, Hamilton, Jackson & Associates
Houston, Texas

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San Diego, California

Hutchens Investment Management, Inc.
New London, New Hampshire

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Chicago, Illinois

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Boston, Massachusetts

J & W. Seligman & Company, Inc.
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New York, New York

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State Street Research & Management Company
Boston, Massachusetts

TCW Asset Management Co., Inc.
Los Angeles, California

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Greenwich, Connecticut

Brandywine Asset Management, Inc.
Wilmington, Delaware

Fisher Investments, Inc.
Woodside, California

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Purchase, New York

UBS Timber Investors
West Lebanon, New Hampshire

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Allegra Capital Partners III
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APA Excelsior IV & V, L.P.
New York, New York

APAX Excelsior VI
New York, New York

Brand Equity Ventures I & II
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Castle Harlan Partners II & III, L.P.
New York, New York

Castle Harlan Australian Mezzanine Partners, L.P.
New York, New York

Coral Partners II, IV & V, L.P.
Minneapolis, Minnesota

Crescendo IV, L.P.
Minneapolis, Minnesota

Energy Investors Fund I & II, L.P.
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Euclid Partners III & IV, L.P.
New York, New York

Euclid SR Partners, L.P.
New York, New York

HEV III US, L.P.
London, England

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North Atlantic Venture Fund II, L.P.
Portland, Maine

Permira German Buy-Outs 1992, L.P.
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RFE Investment Partners VI, L.P.
New Canaan, Connecticut

Richland Ventures I & II, L.P.
Nashville, Tennessee

Sprout VI, VII & VIII, L.P.
New York, New York

Sterling Venture Partners, LLC
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TCW/Crescent Mezzanine Partners, L.P.
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The Venture Capital Fund of New England III, L.P.
Wellesley Hills, Massachusetts

Weiss, Peck & Greer Venture Associates V & VI, LLC
San Francisco, California

Zero Stage Capital V, VI & VII, L.P.
Cambridge, Massachusetts

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New York, New York

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Manchester, New Hampshire

Peter Foley, Esquire
Concord, New Hampshire

New Hampshire Department of Justice
Concord, New Hampshire

INDEPENDENT AUDITORS

KPMG LLP
Boston, Massachusetts

INVESTMENT ADVISOR

Evaluation Associates, Inc.
Norwalk, Connecticut

ACTUARIAL CONSULTANT

Buck Consultants, Inc.
Secaucus, New Jersey

COMMERCIAL REAL ESTATE CONSULTANT

The Townsend Group
Cleveland, Ohio

COMMERCIAL REAL ESTATE MANAGERS

Hart Advisers, Inc.
Simsbury, Connecticut

LaSalle Investment Management
Chicago, Illinois

UBS Realty Investors, LLC
Hartford, Connecticut

CUSTODIANS

Citizens Bank-NH
(In-state Custodian)
Manchester, New Hampshire

The Northern Trust Company
(Master Custodian)
Chicago, Illinois

COMMISSION BROKERS

Abel/Noser Corporation
New York, New York

BNY ESI and Co.
New York, New York

Fleet Institutional Trading
West Hempstead, New York

Lynch, Jones & Ryan, Inc.
New York, New York

Pension Fund Evaluations, Inc.
Centereach, New York

CORPORATE GOVERNANCE SERVICES

Institutional Shareholder Services, Inc.
Rockville, Maryland

Securities Class Action Services, LLC
New York, New York

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Letter Of Transmittal

NEW HAMPSHIRE RETIREMENT SYSTEM

EDWARD J. THEOBALD
Chairman, Board of Trustees
(603) 427-0911

ERIC HENRY
Executive Director

J. P. SINGH
Director of Finance

The Granite State

November 8, 2002

Eric Henry
Executive Director

Dear Mr. Chairman and Members of the Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report of the New Hampshire Retirement System (NHRS or the System) for the fiscal year ended June 30, 2002. This comprehensive report is designed to comply with the provisions of the Revised Statutes Annotated (RSA) 100-A:15, VI of the State of New Hampshire. The NHRS's management is responsible for the complete and fair presentation of the data and the accompanying disclosures in this report. We believe this report presents fairly the combined assessment of the investment results and the financial condition of the Pension Plan and the Postretirement Medical Plan.

The NHRS was established in 1967 to consolidate and replace four separate pension plan systems: the New Hampshire Teachers Retirement System, the New Hampshire State Employees Retirement System, the New Hampshire Policemen's Retirement System, and the New Hampshire Permanent Firemen's Retirement System. The NHRS provides service retirement, disability and survivor benefits for all full-time state employees, public school teachers and administrators, permanent police officers, and permanent firefighters. Full-time employees of political subdivisions (such as county, municipal or school district employees) are also eligible to participate as a group if the governing body elects participation. The NHRS is a qualified governmental plan within the meaning of section 414(d) of the United States Internal Revenue Code and has a separately appointed governing body. Based on financial reporting guidelines, NHRS's Pension Plan is deemed to be a single pension plan. In addition, NHRS administers a postretirement medical plan for eligible Group I and Group II members. A complete description of member's eligibility for each plan and additional information concerning benefits available are contained in the Summary of Plan Provisions beginning on page 16.

BUDGET CONTROLS AND NHRS ADMINISTRATION

The administrative budget of the NHRS for the fiscal year 2002 was proposed by management, approved by the Board of Trustees, submitted under the budget preparation guidelines of the State of New Hampshire, and appropriated by the New Hampshire Legislature and funded with System plan assets.

In accordance with GASB Statement No. 14 guidelines for a reporting entity, the NHRS is a component unit of the State of New Hampshire.

NHRS is administered by a 13 member board of trustees, which includes one State Senator, one State Representative, the State Treasurer as an ex-officio member, two employees, two teachers, two firefighters, two police officers, and two public non-members. The Board of Trustees formulates administrative policies and procedures, authorizes benefit payments to members and their beneficiaries and manages the trust funds. The administrative functions of NHRS are directed by the Executive Director and are carried out by the Administrative Staff.

The Board of Trustees employs a qualified consulting actuary, a master custodian, investment managers, investment advisors and outside legal counsel.

REPORT STRUCTURE

The Comprehensive Annual Financial Report is presented in five sections. The Introductory Section contains general information regarding the operations of the NHRS. The Financial Section contains the independent auditors' report, management's discussion and analysis, financial statements, related notes and disclosures, required supplementary information and certain supporting schedules. The Investment Section contains an investment report prepared by the investment consultant and comparative information pertaining to the investments held by the NHRS. The Actuarial Section contains the independent actuary's certification, an outline of actuarial assumptions and methods, and other actuarial statistics. The Statistical Section contains general statistical information regarding the NHRS participants and finances.

ACCOUNTING SYSTEM AND INTERNAL CONTROL

The Comprehensive Annual Financial Report has been prepared in conformity with the principles of governmental accounting and the most current reporting pronouncements of the Governmental Accounting Standards Board (GASB). The financial statements are prepared on the accrual basis of accounting. Contributions are recognized as revenue in the period when they become due pursuant to formal commitments or statutory or contractual requirements. Investment income is recognized as it is earned. Benefits, refunds and investment expenses are recognized when they become due and payable. Net appreciation (depreciation) in the fair value of investment is recorded as an increase (decrease) to investment income based on the valuation of investments as of the date of the financial statements. Trade commissions and related transaction costs are netted out against the fair value of investments. The fixed assets that are legally the property of the NHRS are recognized as fixed assets in the System's financial statements in accordance with the System's established fixed asset policy.

The management of the NHRS is responsible for maintaining a system of internal controls which is designed to provide reasonable assurance that the assets are adequately safeguarded and the financial records and financial statements are fairly stated. We believe the existing internal accounting controls accomplish these objectives.

FINANCIAL PERFORMANCE

The Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets show how the System's net assets have decreased during the fiscal years ended June 30, 2002 and June 30, 2001. The detailed discussion on the investment performance, the sources of additions, deductions, and results of operations is covered in the Management's Discussion and Analysis on page 25.

FUNDING STATUS

The NHRS has adopted an open group aggregate method, with target funding as a minimum, to determine the annual required contributions. In accordance with GASB 25 guidelines, this method does not identify or separately amortize unfunded actuarial liabilities. Therefore, the funded ratio can not be determined by the actuary. However, to measure the actuarial balance of the System, we have provided information on plan liabilities. The liabilities are determined using the unit credit actuarial cost basis to estimate pension benefits that will be paid in future years as result of member services performed to date and compensation earned to date. This ratio measures the progress made towards the Board of Trustees funded ratio goals. The funded ratio is determined by dividing the net assets held in trust for benefits by the pension liabilities.

A more conservative measurement is when plan liabilities are adjusted for the effects of projected future salary increase.

The projected pension liability as of June 30, 2002 is presented on pages 74 and 75 based on this conservative approach. The fair value of net assets held in trust for benefits was $3.101 billion net of the Undesignated Special Account and the Account for Medical Insurance Subsidy. The projected pension liability totaled $4.196 billion, resulting in a funded ratio of 73.9% and projected pension liability in excess of the assets of $1,095 million. For the fiscal year ended June 30, 2001, the funded ratio and the projected pension liability in excess of assets was 88.2% and $454 million, respectively. The current funded ratio reflects the impact of the declining fair value of assets and an increase in plan liabilities during the fiscal year.

The comparable data for the "Board of Trustees Funded Ratio Goals" are also presented on pages 74 and 75.

INVESTMENTS

RSA 100-A:15 fully empowers the New Hampshire Retirement System Board of Trustees to invest funds under the 'Prudent Investor Rule.' This rule requires that fiduciaries shall discharge their duties solely in the interest of the NHRS participants and beneficiaries. In the management of the System assets, the Board of Trustees shall exercise the judgment and care under circumstances then prevailing, that a prudent person acting in like capacity and familiar with such matters, would use in the conduct of a plan of like character and like aims as the System. The Prudent Investor Rule has enabled the NHRS to invest in a broad range of asset classes generally resulting in increased returns at a moderate level of risk achieved through broad diversification.

The current investment guidelines, as set by the Board of Trustees, provide for an acceptable range of holdings in various asset classes. The guidelines provide target allocation objectives of 59% of assets to be invested in common stock, 9% of which may be invested in non-domestic equities; 21% in fixed income securities, of which 3% may be invested in non-domestic bonds; 10% in alternative investments, including investments in timberfunds; and 10% in commercial real estate investments net of third party debt. The Board of Trustees has set specific guidelines related to the third party debt on commercial real estate investments. The investments are managed by professional investment firms who are fiduciaries to the NHRS and are afforded discretionary investment authority within the investment guidelines established by the Board of Trustees.

NHRS's diversified investment policy, on balance, continues to be sound and is designed to generate the best possible total return on a long-term basis at an acceptable level of risk and liquidity. The discussion on comparative two year annualized returns, and related benchmark indices, for fiscal years 2002 and 2001 is presented in the Management's and Discussion and Analysis beginning on page 25.

MAJOR INITIATIVES

During the year ended June 30, 2002, NHRS made significant progress on several key initiatives.

First, we have developed the use cases that will drive the design of our benefits transaction processing system. We have begun the design phase and are currently on-schedule for a mid-2004 implementation. Final implementation will allow us to decommission our aging mainframe solution and to meet the increasing demands for member services associated with the onslaught of baby boomers who are rapidly approaching retirement.

Throughout the fiscal year, we continued the ongoing redesign of our organizational structure and business processes. The Board of Trustees created a new executive-level position to assist with the alignment of the various components of the member services process and to head the new integrated Office of Member Services.

Finally, and equally important, NHRS is reviewing its investment processes to ensure that we have the necessary processes and procedures in place to manage investment risks, income, and liquidity. Fiduciary standards dictate that our investment processes keep pace with the increasingly complex and dynamic investment environment.

INDEPENDENT AUDIT

RSA 100-A:15 requires an annual audit to be performed by the Office of Legislative Budget Assistant, Audit Division (LBA) or their designated subcontractor. For the fiscal year 2002 the LBA designated KPMG LLP to conduct the annual audit of the NHRS. The independent auditors' report, the audited financial statements, required supplementary information, and supporting schedules are included in the Financial Section of this report.

ACTUARIAL REVIEW AND VALUATION

An actuarial review of the mortality, service, withdrawals, and compensation experience of members is required by statute at least once during each five-year period. An actuarial valuation of assets and liabilities is required by statute at least once during each two-year period. The actuarial firm of Buck Consultants, Inc. provides the actuarial experience review and valuation. The most recent valuation was performed as of June 30, 2001. The actuarial information presented in the

2001 valuation provides a forecast valuation on the employer contributions for fiscal year 2004 and 2005. The actuarial certification and supporting statistics are included in the Actuarial and Statistical Sections of this report.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded Certificates of Achievement for Excellence in Financial Reporting to the NHRS for its Comprehensive Annual Financial Reports for the last eleven fiscal years. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized comprehensive annual financial report which conforms to program standards. Comprehensive annual financial reports must satisfy both generally accepted accounting principles and applicable legal requirements. Each Certificate of Achievement is valid for a period of one year only. We believe this year's report continues to conform to the Certificate of Achievement Program requirements.

A reproduction of the 2001 award appears in this Introductory Section. Its attainment continues to represent a significant accomplishment for the NHRS and our goal is to continue to maintain the high standards of financial reporting and disclosure.

ACKNOWLEDGMENTS

The compilation of this report reflects the combined efforts of the administrative staff under the direction of the Board of Trustees of the NHRS. It is intended to provide extensive and reliable information as a basis for making management decisions, determining compliance with legal provisions, and for determining responsible stewardship for the investment and accounting for assets of plan participants.

We would like to take this opportunity to express our gratitude to the Board of Trustees for its guidance and support and to the administrative staff for its dedication, commitment, and efficient operation of the NHRS.

Respectfully submitted,

Eric Henry
Executive Director

J. P. Singh
Director of Finance

4 CHENELL DRIVE, CONCORD, NEW HAMPSHIRE 03301-8509
TELEPHONE 271-3351 OFFICE HOURS 8:00-4:00
TDD Access: Relay NH 1-800-735-2964

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Summary Of Plan Provisions

TYPE OF PLAN

The New Hampshire Retirement System (NHRS) is a contributory defined benefit plan qualified as a tax exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The public employee pension plan provides retirement, disability, and death protection to its members and their beneficiaries. The NHRS also administers a separate postretirement medical plan which provides a subsidy for postretirement medical premiums for eligible pension plan members. Unlike a defined contribution plan, a member's ultimate pension benefit is based on a predetermined formula measured by salary credit and service credit, and not by the amount of contributions made to the plan.

MEMBERSHIP

Membership in the pension plan is a condition of employment for all full-time, classified State employees and for all permanent, full-time firefighters and police officers employed by the State of New Hampshire or any of its political subdivisions. Under specific minimum participation standards, membership is also a condition of employment for public school teachers and other professional staff of public schools, as well as for employees of political subdivisions which have elected to have their employees participate in NHRS. Employees and teachers are classified as Group I. Firefighters and police officers are classified as Group II. While membership in the plan is divided into groups and classes, the pension plan is considered a single plan for financial reporting and federal tax purposes. All assets of the plan are legally available to fund the benefits of any of the plan members or beneficiaries.

CONTRIBUTIONS

Both employers and active members make regular contributions to the pension plan. All contributions are deposited into the pension trust fund.

Employer contributions are based on a percentage of covered payroll, where the rate is determined by the NHRS's actuarial funding requirements. The State of New Hampshire funds 100% of the employer costs for all State employees and 35% of the employer costs for teachers, firefighters, and police officers employed by political subdivisions. The State of New Hampshire does not fund any of the employer costs for other political subdivision employees. For the fiscal year ended June 30, 2002, the employer contribution rate for providing retirement, disability, and death benefits for the employee classification was 4.14%. The employer contribution rate, including the State of New Hampshire's share, for the teacher classification for providing retirement, disability, and death benefits was 3.97%; for the police officer classification, 8.20%; and the firefighter classification, 10.17%.

Active members contribute to NHRS through automatic payroll deductions. Member contribution rates, which are fixed by statute, are currently 5% of gross taxable earnings for employee and teacher members and 9.3% of gross taxable earnings for firefighter and police officer members. Member contributions plus earned interest, referred to as accumulated contributions, are credited to individual member accounts for each member. The interest rate applied to member accounts for fiscal year ended June 30, 2002 was 9.0%.

TAX SHELTER PLAN

Employers may adopt the tax shelter plan available through NHRS. Under Section 414(h) of the United States Internal Revenue Code, contributions are deducted from an employee's gross reportable wages for federal income tax purposes and are not considered taxable gross income until the funds are distributed through either a lump sum payment or a retirement pension.

CREDITABLE SERVICE

Members earn creditable service for periods during which they are actively contributing to NHRS. Service credit may also be earned for the following:

(1) Prior Service — Service rendered under any of the predecessor systems when there has been no break in service; service rendered by an employee of a political subdivision before the employer elected participation of its employees in the NHRS.

(2) Military Duty — Military service in the Armed Forces of the United States or other emergency wartime service of the United States.

(3) Temporary Service — Service for an employment period of 6 months or more in a temporary, unclassified, or non-classified capacity or in non-permanent full-time employment prior to becoming a member.

(4) Withdrawn Service — Service for an employment period of 6 months or more for which a member withdrew his/her accumulated contributions after termination of employment.

(5) Enrollment Oversight — Service rendered during a period of time when a member should have been enrolled but was not.

(6) Previous Out-of-State or Federal Government Service — Service rendered in another state retirement system or federal government system.

(7) Workers' Compensation Recipients — Creditable service for a period of up to one year granted to members who receive weekly workers' compensation awards under RSA 281-A on or after July 1, 1994.

SERVICE RETIREMENT

Group I contributing members qualify for a service retirement pension at age 60, with no minimum service credit required. From ages 60 to 64, the pension benefit formula multiplies a member's average final compensation of the three highest paid years by the years of creditable service and then by a unit credit rate of 1.67%. At age 65, all Group I members experience a reduction in their retirement pension when the applied unit credit rate changes to 1.51%.

Group II contributing members qualify for a service retirement pension at age 60, with no minimum service credit required, as well as between ages 45 and 60 with a minimum of 20 years of Group II service. The Group II pension benefit formula multiplies a member's average final compensation of the three highest paid years by years of creditable service not to exceed 40 years, and then by a unit credit rate of 2.5%.

For benefit calculation purposes, a member's final 12 months of earnable compensation is limited to 150% of the preceding 12 months' compensation or the higher of any year used in calculating average final compensation. Unused accrued holiday, vacation, sick, or other pay received for service rendered prior to June 30, 1991, paid for at termination of employment, is not subject to the 150% limitation.

EARLY SERVICE RETIREMENT

Group I members with at least 10 years of service are eligible to receive an early reduced retirement pension between ages 50 to 59, and with at least 20 years of service if their years of service when added to their age equal at least 70. Permanent benefit reductions are graduated for each year the member is under age 60 at 1.50% for 35 or more years of service; 3.00% for 30 to 35 years; 4.00% for 25 to 30 years; 5.00% for 20 to 25 years; and, 6.67% for less than 20 years.

VESTING

Group I and Group II members with at least 10 years of service are eligible for a vested deferred retirement pension even if termination of active membership occurs before meeting the eligibility requirements for collecting a retirement pension. Vested deferred retirement pensions are based on creditable service and average final compensation when employment ends.

Group I members receive a full retirement pension at age 60, or as early as age 50 with an appropriate early retirement reduction.

Group II members may receive a retirement pension at that point when 20 years would have been completed but not before age 45.

ORDINARY DISABILITY RETIREMENT

Active members who have 10 or more years of credited service and become permanently disabled as the result of a mental or physical incapacity that prevents them from performing the duties of their job may qualify for an ordinary disability retirement pension.

Group I members age 60 and older receive an amount equal to a service retirement pension, based on creditable service and average final compensation when employment ends, and, under age 60, an amount equal to 90% of a service retirement pension. Group I members are guaranteed a minimum of 25% of average final compensation.

Group II members receive 100% of a service retirement pension based on creditable service and average final compensation when employment ends. Group II members are guaranteed a minimum of 25% of final compensation.

ACCIDENTAL DISABILITY RETIREMENT

Active contributing members who become permanently disabled as the result of a total mental or physical incapacity that prevents them from performing the duties of their job as the result of an on-the-job accident, repeated trauma or gradual degeneration while on the job, or any job-related occupational disease may qualify for an accidental disability retirement pension. Cases of trauma, degeneration, or occupational disease must first be found compensable by the Commissioner of Labor.

Group I members age 60 and older receive an amount equal to a service retirement pension based on creditable service and average final compensation when employment ends, and, under age 60, an amount equal to 50% of average final compensation. Group I members are guaranteed a minimum of 50% of average final compensation.

Group II members receive an amount equal to 66.67% of average final compensation.

ORDINARY DEATH BENEFIT — NON-JOB-RELATED DEATH

An ordinary death benefit is payable to the beneficiary(ies) of an active member who dies. If the member is vested or is eligible for retirement at the time of death and the surviving spouse is the only designated beneficiary, the spouse may receive a retirement pension until remarriage or death equal to 50% of the member's service retirement pension based on creditable service and average final compensation at the time of death. If the spouse prefers, he/she may receive a lump sum payment equal to the deceased member's annual earnable compensation and a return of member contributions plus earned interest. If the member is not vested or is not eligible for service retirement or leaves no surviving spouse, or if the designated beneficiary is someone other than the spouse, a lump sum payment equal to the deceased member's earnable compensation and member contributions plus earned interest is payable to the designated beneficiary(ies).

ACCIDENTAL DEATH BENEFIT — JOB-RELATED DEATH

An accidental death benefit is payable if an active Group I or Group II member dies as the result of an on-the-job accident. An accidental death benefit is also payable if a Group II member dies as the result of job-related repeated trauma, gradual degeneration or any occupational disease. All accidental deaths must first be found compensable by the Commissioner of Labor.

If the member is married at the time of death, an annual pension is payable to the surviving spouse until remarriage or death. For Group I members, the pension is equal to 50% of the member's average final compensation at the time of death; for Group II, 50% of the member's final compensation at the time of death. If there is no surviving spouse, or if the spouse remarries or dies, the pension is payable to any of the deceased member's children under age 18. If there is no surviving spouse and no dependent children, the pension is payable to the deceased member's dependent mother or father.

If the member leaves no survivors who are eligible for the accidental death pension, then a lump sum payment equal to the member's annual earnable compensation is payable to the member's designated beneficiary(ies). In addition to the accidental death benefit, the deceased member's designated beneficiary(ies) receives a refund of the member contributions plus earned interest.

SPLIT BENEFITS — SERVICE IN BOTH GROUP I AND GROUP II

Generally, with creditable service in both Group I and Group II, members are entitled to a split benefit retirement pension, upon eligibility, based on creditable service in each group classification. The average final compensation to be used in calculating the actual benefit is based on the member's entire period of service.

For members who have less than 20 years of combined creditable service, the split benefit is payable at age 60. For members who have 20 or more years of combined service, the benefit is payable before age 60 by the number of whole years of Group II service, but not before age 45. Members with at least 10 years of combined creditable service may elect to receive an early reduced split benefit retirement pension up to 10 years before the appropriate minimum age, but not before age 45.

OPTIONAL ALLOWANCES

Upon disability or service retirement, a member may choose a reduced pension amount under an optional allowance in order to provide a beneficiary with a benefit after the retired member's death. Unless an optional allowance is elected, the only amount payable to a beneficiary after the retired member's death is any balance of member contributions plus earned interest not yet distributed. Optional allowances include the following:

Option 1	Extends the period of eligibility for a lump sum payment to a beneficiary, equal to any member contributions plus interest not yet distributed as part of the member annuity.
Option 2	100% of the retiree's reduced retirement pension payable to the survivorship beneficiary.
Option 3	50% of the retiree's reduced retirement pension payable to the survivorship beneficiary.
Option 4(A)	100% "Pop-Up" Option. Similar to Option 2, except that the retiree's reduced retirement pension "pops up" to the maximum benefit amount if the survivorship beneficiary predeceases the retiree.
Option 4(B)	50% "Pop-Up" Option. Similar to Option 3, except that the retiree's reduced retirement pension "pops up" to the maximum benefit amount if the survivorship beneficiary predeceases the retiree.
Option 4(C)	Some other benefit of the member's choice, approved by the NHRS Board of Trustees, payable to the beneficiary.

A retiring member may designate any number of his children as multiple beneficiaries under one of the survivorship options, where payments would be made to multiple children beneficiaries in equal shares after the retired member's death. Multiple beneficiaries under a survivorship option must be the member's natural children, adopted children, or stepchildren.

MAXIMUM BENEFIT LIMITATIONS

Any benefit payable to a survivorship beneficiary is subject to the limitations set forth in RSA 100-A:13-b. A beneficiary or multiple children beneficiaries cannot receive more than 100% of the retired member's pension. A non-spouse beneficiary who is more than 10 years younger than the retired member is limited to a survivorship pension of 52% to 96% of the retired member's pension. The exact percentage will vary according to the age of the beneficiary.

AUTOMATIC SURVIVING SPOUSAL ALLOWANCE — GROUP II ONLY

Upon the death of a Group II member who retired under service or disability retirement on or after April 1, 1987, the surviving spouse is entitled to a pension, as long as the member was married to that spouse on the effective date of retirement. The pension is equal to 50% of the retired member's pension and is payable until the surviving spouse's remarriage or death. This pension is separate from a survivorship option.

LUMP SUM DEATH BENEFIT — GROUP II ONLY

If a Group II member had been a member of Group II as of June 30, 1988, and retired on or after July 1,1988, the designated beneficiary is entitled to a lump-sum payment of $10,000 after the retired member's death. If a Group II member became a member on or after July 1, 1988, but before July 1, 1993, then the lump-sum payment payable to the designated beneficiary is $3,600. No lump-sum payment is payable to beneficiaries of retired members who joined Group II after July 1, 1993.

HEALTH INSURANCE AFTER RETIREMENT

Political subdivision employers are required to make available to their retired employees the same level of health care coverage that they provide to their active employees. The responsibility for paying for that health insurance coverage may rest with either the employer or the retired employee.

The State of New Hampshire provides paid health insurance to its retired State employees and their spouses, if they meet the eligibility requirements. State paid health insurance is based on RSA 21-I:30 and is dependent on legislatively appropriated funding.

POSTRETIREMENT MEDICAL PLAN

The following Group I members are eligible for coverage under the postretirement medical plan:

- Teacher members and Employee members of political subdivisions and spouses (or beneficiaries including disabled children) who retire on or before July 1, 2008 at age 60 with at least 20 years of creditable service or at age 55 through 59 with at least 30 years of creditable service on a service or ordinary disability retirement.
- Surviving spouses and children of Teacher members, and Employee members of political subdivisions who die as the natural and proximate result of injuries suffered while in the performance of duty. Payment of the subsidy ceases when (i) the dependent child attains age 18 or age 23, if attending school on a full-time basis or (ii) the spouse remarries.
- Vested terminated Teacher members and Employee members of political subdivisions and spouses who complete at least 20 years of creditable service and prior to July 1, 2008 receives an allowance and who subsequently attains age 60.
- Teacher members and Employee members of political subdivisons and spouses who retire after completing at least 20 years of creditable service and who subsequently attains age 60 before July 1, 2008 or who complete at least 30 years of creditable serviced and who subsequently attains age 55 before July 1, 2008.
- Spouses of Teacher members and Employee members of political subdivisions who died in active service after attaining the eligibility requirements for the subsidy, and who elected a refund of contributions.

The following Group II members are eligible for the postretirement medical premium subsidy:

- Active or Retired Group II police officer members (or beneficiaries) as of June 30, 2000.
- Active or Retired Group II firefighter members (or beneficiaries) as of June 30, 2000.
- Persons who prior to July 1, 1988 had completed at least 20 years of Group II service and are eligible as of July 1, 1993 for a vested deferred retirement benefit.
- Group I members retired as of July 1, 1991 with a split benefit under RSA 100-A:19-c who have at least 10 years of Group II service.
- Group II members as of June 30, 2003 who subsequently became disabled while in the performance of duty at any time in the future.

- Employee members of the State and spouses (or beneficiaries including disabled children) who retire on or before July 1, 2004 at age 60 with at least 20 years of creditable service or at age 55 through 59 with at least 30 years of creditable service on a service or ordinary disability retirement.
- Surviving spouses and children of Employee members of the State who die as the natural and proximate result of injuries suffered while in the performance of duty. Payment of the subsidy ceases when (i) the dependent child attains age 18 or age 23, if attending school on a full-time basis (ii) the spouse remarries.
- Vested terminated Employee members of the State and spouses who completed at least 20 years of creditable service and prior to July 1, 2004 receives an allowance and who subsequently attains age 60.
- Employee members of the State and spouses who retire after completing at least 20 years of creditable service and who subsequently attains age 60 before July 1, 2004 or after completing at least 30 years of creditable service and who subsequently attains age 55 before July 1, 2004.
- Employee members of the State who died in active service after attaining the eligibility requirements for the subsidy, and who elected a refund of contributions.

The System subsidy covers the retired member's spouse and any of the retired member's certifiably dependent and disabled children.

COST-OF-LIVING ADJUSTMENTS (COLAs)

On February 1 of each year, the Fiscal Committee of the New Hampshire Legislature is empowered to approve COLAs, subject to availability of funding from the Special Account. When COLAs are granted by the Legislature, they become a permanent part of retirement pensions.

REFUND OF CONTRIBUTIONS

Members who terminate employment are entitled to withdraw their member contributions plus earned interest. All earned rights to a retirement pension are thereby forfeited.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

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INANCIAL
ECTION

Independent Auditors' Report

KPMG

99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 988 0800

Independent Auditors' Report

The Fiscal Committee of the General Court:

We have audited the accompanying basic financial statements of the New Hampshire Retirement System (the System), a component unit of the State of New Hampshire, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2001 basic financial statements and, in our report dated November 7, 2001, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2002, and the changes therein for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, the System implemented Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, in 2002.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the System. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

The management's discussion and analysis on pages 25 through 29 and the historical pension information on pages 47 through 48 are not a required part of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

We did not audit the information included in the Introductory, Investment, Actuarial, and Statistical sections, and therefore express no opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2002 on our consideration of the System's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

November 8, 2002

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Management's Discussion and Analysis—Required Supplementary Information

This section presents management's discussion and analysis of the New Hampshire Retirement System's (NHRS) financial performance during the fiscal year ended June 30, 2002 and is presented as a narrative overview and analysis in conjunction with the Letter of Transmittal included in the Introductory Section of the NHRS' Comprehensive Annual Financial Report. The report presents the combined assessment of the financial performance of the Pension Plan and the Postretirement Medical Plan.

The discussion and analysis is intended to serve as an introduction to the basic financial statements. These statements include the Statements of Plan Net Assets, the Statements of Changes in Plan Net Assets, the related Notes to the Financial Statements, and the Required Supplementary Information for the fiscal year ended June 30, 2002 with comparable totals for fiscal year 2001. The excess of assets over liabilities is reported as "Net Assets Held in Trust for Benefits."

FINANCIAL HIGHLIGHTS

- The net assets of the NHRS decreased by $403.8 million from the prior year's net asset balance, a reduction of 9.3%. The decrease was primarily due to a downturn in the world equity markets; (the S&P 500 Composite Index was down 18.0%, the MSCI EAFE Index was down 9.5%) and an increase of $35.2 million (16.5%) in benefit payments. The increase in benefit payments was due to a rise in the number of retirees, cost of living increases and legislative action allowing additional retirees to participate in the postretirement medical plan.
- The depreciation in investments, combined with interest and dividend income represents a -6.4% time weighted rate of return for the total fund for the fiscal year ended June 30, 2002, compared to a rate of return of -6.7% for the year ended June 30, 2001.

FINANCIAL ANALYSIS

The following are the condensed comparative Plan Net Assets and Changes in Plan Net Assets for the New Hampshire Retirement System for the fiscal years ended June 30, 2002 and June 30, 2001.

Condensed Comparative Plan Net Assets
(Dollar Values Expressed in Millions)

	As Of June 30, 2002	As Of June 30, 2001	Amount Increase (Decrease)	Percentage Increase (Decrease)
Cash	$ 2.8	$ 3.7	($ 0.9)	(24.3%)
Receivables	193.9	91.8	102.1	111.2%
Investments	3,910.7	4,335.8	(425.1)	(9.8%)
Cash Collateral on Securities Lending	342.9	400.3	(57.4)	(14.3%)
Other Assets	1.1	0.3	0.8	266.7%
Total Assets	**$4,451.4**	**$4,831.9**	**($380.5)**	**(7.9%)**
Cash Collateral on Securities Lending	$342.9	$400.3	($57.4)	(14.3%)
Other Liabilities	172.0	91.3	80.7	88.4%
Total Liabilities	**$ 514.9**	**$ 491.6**	**$ 23.3**	**4.7%**
Net Assets Held in Trust for Benefits	**$3,936.5**	**$4,340.3**	**($403.8)**	**(9.3%)**

See accompanying independent auditors' report.

Condensed Comparative Changes in Plan Net Assets
(Dollar Values Expressed in Millions)

	Year Ended June 30, 2002	Year Ended June 30, 2001	Amount Increase (Decrease)	Percentage Increase (Decrease)
ADDITIONS:				
Employer Contributions	$ 83.5	$ 74.7	$ 8.8	11.8%
Member Contributions	103.2	94.0	9.2	9.8%
Postretirement Medical Plan Contributions	26.0	18.3	7.7	42.1%
Net Investment Income (Loss)	(322.8)	(357.1)	34.3	9.6%
Other Income	2.1	5.6	(3.5)	(62.5%)
Total Additions	**($108.0)**	**($164.5)**	**$56.5**	**34.3%**
DEDUCTIONS:				
Benefits Paid	$248.4	$213.2	$35.2	16.5%
Refunds of Contributions	15.3	17.0	(1.7)	(10.0%)
Administrative Expense	4.8	4.4	0.4	9.1%
Postretirement Medical Plan Contributions	26.0	18.3	7.7	42.1%
Other Deductions	1.3	1.2	0.1	8.3%
Total Deductions	**$295.8**	**$254.1**	**$41.7**	**16.4%**
Total Changes in Plan Net Assets	**($403.8)**	**($418.6)**	**$14.8**	**3.5%**

Plan net assets declined by $403.8 million (9.3%) in fiscal year 2002. A decline in investments of $425.1 million (9.8%) was the primary reason for the overall decline in plan net assets. This decline in investments reflects significant declines in domestic and international equity markets during the fiscal year. The receivables increased by $102.1 million (111.2%) at the end of the fiscal year due to pending sales of securities. Overall, liabilities increased by $23.3 million (4.7%) at the end of the fiscal year primarily due to an increase in payables for pending purchases of securities which was partially offset by a decrease in the liability for cash collateral related to security lending.

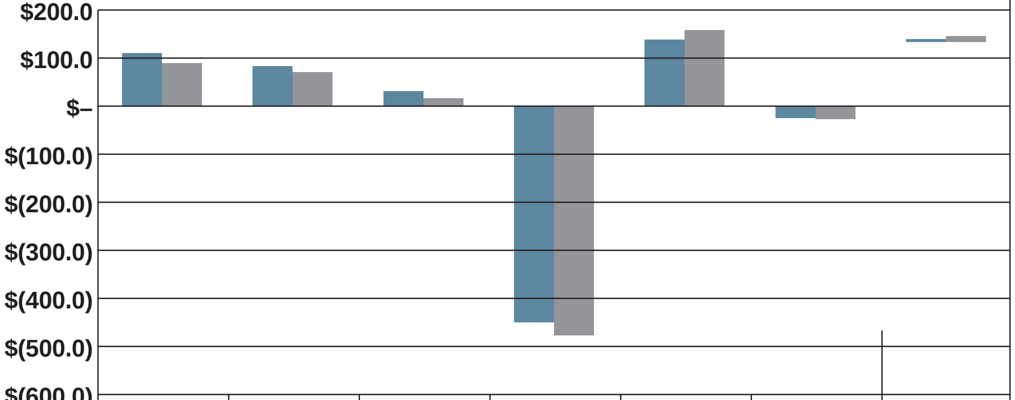
The Statements of Changes in Plan Net Assets itemize Additions, Deductions, and Net Changes, showing how the assets have increased or decreased during the years ended June 30, 2002 and June 30, 2001. All activities were recorded using the accrual basis of accounting. Income is recognized when earned and expenses are recognized when incurred, regardless of the timing of cash flow. The difference in total additions and total deductions resulted in a net decrease of $403.8 million in fiscal year 2002 from fiscal year 2001. Additions and deductions are the two major segments of the Statements of Changes in Plan Net Assets.

ADDITIONS TO PLAN NET ASSETS

For fiscal year 2002, total contributions increased by $25.7 million or 13.7%. Employer contributions increased from $74.7 million in fiscal year 2001 to $83.5 million (11.8%) in fiscal year 2002. The 11.8% increase in employer contributions was a result of increases in the employer contribution rates and in the compensation paid to members. Member contributions increased by $9.2 million or 9.8% primarily due to an increase in the compensation paid to members. Employer contributions to the postretirement medical plan increased by $7.7 million or 42.1% as a result of legislative changes that increased the number of members eligible for the postretirement medical subsidy.

See accompanying independent auditors' report.

Additions to Plan Net Assets
Comparative Data for FY 2002 and FY 2001
(in millions)



	Member Contributions	Employer Contributions	Postretirement Medical	Net Appreciation (Depreciation)	Investment Income	Investment Expenses	Other Additions
FY 2002	$103.2	$83.5	$26.0	$(443.5)	$147.7	$(27.0)	$2.1
FY 2001	$94.0	$74.7	$18.3	$(480.9)	$153.0	$(29.2)	$5.6

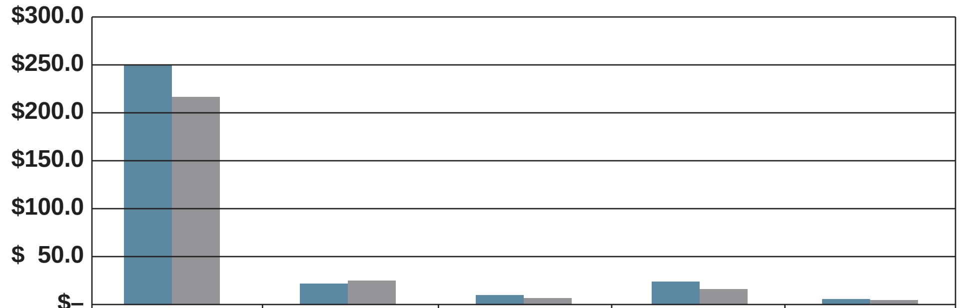
Over the long term, the System's investment portfolio has been a major source for additions to plan net assets. However, due to declines in the capital markets during fiscal year 2002, net investment income for the year was a decrease of $322.8 million. Of this amount, there was net depreciation in the fair value of investments of $443.5 million. The net depreciation recorded was offset by income earned on the investments of $147.7 million. Investment expenses declined during fiscal year 2002 to $27.0 million as investment management fees decreased as a result of the overall decline in the fair value of the investments under management.

DEDUCTIONS TO PLAN NET ASSETS

Benefits paid increased by $35.2 million or 16.5% over fiscal year 2001. Of this increase, $24.3 million was a result of additional retirees added to the payroll during the period and to cost of living adjustments granted to retirees through legislative action. The postretirement medical subsidy increased by $7.7 million as a result of legislation enacted in fiscal year 2001 that increased the number of retirees eligible for the postretirement medical subsidy. Administrative expense increased from $4.4 million in fiscal year 2001 to $4.8 million, an increase of $0.4 million or 9.1%. This increase was due to pay raises of $0.2 million and the balance was related to non-capitalized expenditures for the System's new pension administration system.

See accompanying independent auditors' report.

Deductions to Plan Net Assets
Comparative Data for FY 2002 and FY 2001
(in millions)



	Benefits Paid	Refunds	Administrative Expenses	Postretirement Medical Expenses	Other Deductions
FY 2002	$248.4	$15.3	$4.8	$26.0	$1.3
FY 2001	$213.2	$17.0	$4.4	$18.3	$1.2

PLAN FUNDING STATUS

The System has adopted the open group aggregate funding method, with target funding as a minimum, to determine the annual required contributions. In accordance with the GASB 25 guidelines this method does not identify or separately amortize unfunded actuarial liabilities. However, to measure the actuarial balance of the System the funding ratio is calculated by dividing the fair value of assets held in trust for benefits by the present value of the liabilities. The liabilities are determined using the projected unit credit actuarial cost basis to estimate pension benefits that will be paid in future years as a result of member services performed to date and compensation earned to date and is adjusted for the effect of projected salary increases. Based on this calculation the funded ratio as of June 30, 2002 declined to 73.9%, compared to 88.2% as of June 30, 2001.

The System's pension liabilities increased by $353.7 million from the prior year due to a maturing membership and to increases in the overall compensation earned by members over the prior year. As discussed earlier, the net assets held in trust for benefits declined by $403.8 million or 9.3% primarily as a result of declines in the fair value of investments due to highly volatile capital markets.

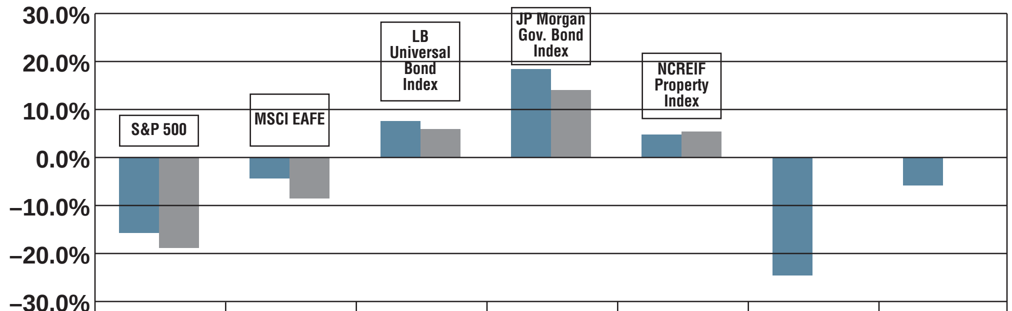
INVESTMENT PERFORMANCE

The investment climate during fiscal year 2002 has been a difficult one. Domestic equity returns, as evidenced by the S&P 500 Composite Index, returned -18.0% during the fiscal year and international equity returns for the MSCI EAFE Index were -9.5% for the same period. The System recognizes that it operates in a dynamic economic environment. The challenges of investing the System's funds strategically to achieve above average market returns balanced with controlled risk are greater than ever and the System has allocated assets to a broad range of assets classes to maximize investment returns and to maintain adequate levels of liquidity and risk.

The equity and fixed income investments comprise approximately 80.4% of invested assets as of June 30, 2002. The remaining 19.6% of assets are predominantly invested in commercial real estate, timber and alternative investments for the primary purpose of managing risk through diversification.

See accompanying independent auditors' report.

Investment Performance NHRS vs. Selected Indices
FY 2002



	Domestic Equity	International Equity	Domestic Fixed	Global Fixed	Commercial Real Estate	Alternatives	Total Fund
NHRS	–15.2%	–5.4%	8.7%	19.0%	5.5%	–25.3%	–6.4%
Indices	–18.0%	–9.5%	7.7%	13.7%	5.5%	*	*

*Comparable indices are not available.

Investment performance results are measured by the relationship of the System's portfolio returns for equity and fixed income investments against widely accepted market indices. In the case of domestic equity, the S&P 500 Composite Index, and for domestic fixed income the Lehman Brothers Universal Bond Index. International equity is measured against MSCI EAFE Index and global fixed income against the J.P. Morgan Government Bond Index. Additionally, the commercial real estate investments are compared to the NCREIF Property Index.

For the fiscal year ended June 30, 2002, the System's total fund returned -6.4%, compared to -6.7% for the fiscal year ended June 30, 2001, outperforming the prior year by 30 basis points. The domestic equity portfolio returned -15.2% this fiscal year and outperformed the S&P 500 Composite Index by 2.8%. Diversification among both large and small capitalization value and growth companies enabled the domestic equity to outpace the S&P 500 Composite Index. The international equity investments returned -5.4% outperforming the MSCI EAFE Index by 4.1%. The weakness in the U. S. dollar helped the performance in this asset class. The domestic fixed income investments returned 8.7% outperforming the Lehman Brothers Universal Bond Index by 1.0% and the global bond portfolio returned 19.0% outperforming the J.P. Morgan Government Bond Index by 5.3%.

Additionally, the commercial real estate portfolio returned 5.5% matching the NCREIF Property Index. The office sector was under pressure due to the downturn in the U.S economy. The alternative investment class, including timberfunds, was the worst performing asset class returning a -25.3% for the fiscal year ended June 30, 2002. There was an average 27% write down in this asset class according to a report issued by Venture Economics and the National Venture Capital Association.

CONTACTING THE NEW HAMPSHIRE RETIREMENT SYSTEM

The Comprehensive Annual Financial Report is designed to provide a general overview of the New Hampshire Retirement System's investment results and financial condition of the Pension Plan and Postretirement Medical Plan for the year ended June 30, 2002. Please contact the New Hampshire Retirement System's Office for additional financial information or for questions related to this report.

See accompanying independent auditors' report.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

STATEMENTS OF PLAN NET ASSETS

(in thousands)

AS OF JUNE 30, 2002 (with summarized financial information as of June 30, 2001)

	PENSION PLAN 2002	POST RETIREMENT MEDICAL PLAN 2002	TOTAL 2002	TOTAL 2001
ASSETS:				
Cash	$ 2,517	$ 316	$ 2,833	$ 3,640
Receivables:				
Due from Employers	4,620	—	4,620	5,261
Due from State	4,207	—	4,207	7,540
Due from Plan Members	7,636	—	7,636	8,322
Due from Brokers for Securities Sold	142,031	17,842	159,873	49,198
Interest and Dividends	13,987	1,757	15,744	18,108
Other	1,607	202	1,809	3,404
Total Receivables	174,088	19,801	193,889	91,833
Investments At Fair Value (NOTES 2 and 3):				
Equity Investments:				
Domestic	1,550,988	194,835	1,745,823	2,033,023
International	284,951	35,796	320,747	342,292
Fixed Income Investments:				
Domestic	800,885	100,608	901,493	979,489
Global	157,190	19,746	176,936	150,449
Commercial Real Estate	343,923	43,204	387,127	414,059
Timberfunds	84,471	10,611	95,082	127,348
Alternative Investments	184,476	23,174	207,650	287,062
Temporary Investments	67,343	8,460	75,803	2,079
Total Investments	**3,474,227**	**436,434**	**3,910,661**	**4,335,801**
Cash Collateral on Securities Lending (NOTE 3)	304,606	38,265	342,871	400,277
Fixed Assets	730	92	822	—
Other Assets	237	30	267	313
TOTAL ASSETS	**3,956,405**	**494,938**	**4,451,343**	**4,831,864**
LIABILITIES:				
Cash Collateral on Securities Lending (NOTE 3)	304,606	38,265	342,871	400,277
Management Fees and Other Payables	5,659	711	6,370	8,312
Due to Brokers for Securities Purchased	147,143	18,484	165,627	83,005
TOTAL LIABILITIES	**457,408**	**57,460**	**514,868**	**491,594**
NET ASSETS HELD IN TRUST FOR BENEFITS (NOTE 4: The information on funding progress is shown on page 40.)	**$3,498,997**	**$437,478**	**$3,936,475**	**$4,340,270**

The accompanying notes are an integral part of the basic financial statements.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

STATEMENTS OF CHANGES IN PLAN NET ASSETS (in thousands)

FOR THE YEAR ENDED JUNE 30, 2002 (with summarized financial information for the year ended June 30, 2001)

	PENSION PLAN 2002	POST RETIREMENT MEDICAL PLAN 2002	TOTAL 2002	TOTAL 2001
ADDITIONS:				
Contributions (NOTE 6):				
Employers	$ 46,573	$ 20,466	$ 67,039	$ 59,272
State Contributions on Behalf of Local Employers	10,985	5,492	16,477	15,384
Total Employer Contributions	**57,558**	**25,958**	**83,516**	**74,656**
Plan Members	103,211	—	103,211	93,999
Postretirement Medical Plan Contributions on Behalf of Employers	25,958	—	25,958	18,317
Total Contributions	**186,727**	**25,958**	**212,685**	**186,972**
Investment Income (Loss) From Investment Activities:				
Net Appreciation (Depreciation) in Fair Value of Investments	(396,095)	(47,453)	(443,548)	(480,898)
Interest	64,428	7,719	72,147	72,180
Dividends	28,845	3,456	32,301	41,533
Timberfund Income (Loss)	(154)	(18)	(172)	37
Alternative Investment Income	1,092	131	1,223	510
Net Commercial Real Estate Operating Income	36,475	4,370	40,845	37,155
Total Income (Loss) from Investment Activities	**(265,409)**	**(31,795)**	**(297,204)**	**(329,483)**
Less: Investment Expenses:				
Investment Management Fees	23,385	2,802	26,187	28,156
Custodial Fees	356	43	399	634
Investment Advisor Fees	369	44	413	461
Total Investment Activity Expenses	**24,110**	**2,889**	**26,999**	**29,251**
Total Net Income (Loss) from Investment Activities	**(289,519)**	**(34,684)**	**(324,203)**	**(358,734)**
From Securities Lending Activities (NOTE 3):				
Securities Lending Income	9,719	1,164	10,883	27,147
Less: Securities Lending Borrower Rebates	7,962	954	8,916	24,856
Less: Securities Lending Management Fees	527	63	590	687
Net Income from Securities Lending Activities	**1,230**	**147**	**1,377**	**1,604**
Total Net Investment Income (Loss)	**(288,289)**	**(34,537)**	**(322,826)**	**(357,130)**
Administrative Assessment	308	37	345	5,298
Other	1,586	190	1,776	371
TOTAL ADDITIONS	**(99,668)**	**(8,352)**	**(108,020)**	**(164,489)**
DEDUCTIONS:				
Benefits Paid	224,412	24,009	248,421	213,186
Refunds of Contributions	15,278	—	15,278	16,979
Administrative Expense (NOTE 8)	4,263	511	4,774	4,405
Postretirement Medical Plan Contributions to Pension Plan on Behalf of Employers	—	25,958	25,958	18,317
Professional Fees	389	47	436	623
Other	811	97	908	650
TOTAL DEDUCTIONS	**245,153**	**50,622**	**295,775**	**254,160**
Net Asset Transfers (NOTE 5)	**(160,374)**	**160,374**	**—**	—
NET INCREASE (DECREASE)	**($505,195)**	**$101,400**	**($403,795)**	**($418,649)**
NET ASSETS HELD IN TRUST FOR BENEFITS				
Beginning of the Year	$4,004,192	$336,078	$4,340,270	$4,758,919
End of the Year	$3,498,997	$437,478	$3,936,475	$4,340,270

The accompanying notes are an integral part of the basic financial statements.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

NOTE 1 — PLAN DESCRIPTION

The New Hampshire Retirement System (System) consists of a cost-sharing, multiple-employer contributory pension plan (Pension Plan) and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code and a post-retirement medical plan (Medical Plan). The pension plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State of New Hampshire are eligible and required to participate in the System. Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

As required by RSA 100-A:41-a, effective July 1, 1994, the System provides for the possible payment of supplemental retirement allowances (COLA). Effective July 1, 1999, any retired member who has been retired for at least 12 months (or beneficiary of such a member) could be entitled to receive on the member's retirement anniversary date a supplemental retirement allowance from 1% to 5%. Each February 1, the fiscal committee of the general court may approve such supplemental retirement allowances payable on the following July 1 based on the funds available in the Special Account.

The administrative office of the System, which functions as a "self sustaining" governmental entity, operates under a budget which is proposed by management, approved by the Board of Trustees, submitted under guidelines of the executive branch of the State of New Hampshire, and passed into law by the New Hampshire Legislature.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, the New Hampshire Retirement System is a component unit of the State. This determination was made on the basis of fiscal dependence on the State solely for budget oversight over administrative expenses.

The type and number of employers contributing to the System during the years ended June 30, 2002 and 2001 are presented below.

EMPLOYERS CONTRIBUTING	2002	2001
State Government	1	1
City Governments	13	13
Town Governments and Related Entities	210	204
County Governments	10	10
School Districts and School Administrative Units	218	222
Total Employers	**452**	**450**

As of June 30, 2002 and 2001 membership data related to the pension plan was as follows:

MEMBERSHIP DATA	2002#	2001
Retirees and beneficiaries currently receiving benefits	16,670	15,416
Terminated employees entitled to benefits but not yet receiving them	515	653
Active and inactive plan participants:		
Vested	20,543	21,575*
Nonvested	33,427	30,047**
Total Membership	**71,155##**	**67,691**

Information estimated as there was no full actuarial valuation prepared as of June 30, 2002.
* Includes 792 inactives.
** Includes 3,141 inactives.
Includes 7,783 inactives.

The New Hampshire Retirement System is divided into two membership groups. State or local employees and teachers belong to Group I. Police officers and firefighters belong to Group II. All assets are held in a single trust and are available to pay retirement benefits to all members. Benefits available to each membership group are summarized below.

Group I Members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest three years. The yearly pension amount is 1/60 or 1.667% of average final compensation (AFC), multiplied by years of creditable service. AFC is defined as the average of the three highest salary years, and for benefit calculation purposes only, the final year's salary cannot exceed by more than 150% the higher of the previous year's salary or the salary for the highest year used in the calculation of AFC (not including the final year's salary). At age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of AFC multiplied by years of creditable service. Members in service with 10 or more years of creditable service who are between age 50 and 60 or members in service with at least 20 years of creditable service, whose age plus service is equal to or greater than 70, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II Members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

Members of the System are required to contribute a percentage of gross earnings to the System as more fully described in Note 6. The percentage rates, established by state statute, are dependent upon member group classification. The deductions are made from member wages and are remitted by the employer to the System on a monthly basis. If a member leaves employment prior to retirement or vesting, accumulated member contributions plus earned interest are refunded to the withdrawing member or to the designated beneficiary in the case of death. However, accumulated contributions plus interest of a non-vested, non-contributing member may remain in the System and earn interest for up to six years.

Employers make monthly contributions to the Pension Plan based on rates determined by periodic actuarial valuations as more fully described in Note 6.

Pursuant to RSA 100-A:50 and RSA 100-A:53-a, the New Hampshire Retirement System also provides a postretirement medical plan to certain Group I and Group II members. The maximum monthly subsidy effective as of July 1, 2002 for eligible members (and beneficiaries) not eligible for Medicare is $255.60. For those eligible for Medicare, the maximum monthly subsidy is $161.19. The monthly maximum premium is increased each July 1 by 8%.

The following Group I members are eligible for coverage under the postretirement medical plan:

- Teacher members and Employee members of political subdivisions and spouses (or beneficiaries including disabled children) who retire on or before July 1, 2008 at age 60 with at least 20 years of creditable service or at ages 55 through 59 with at least 30 years of creditable service on a service or ordinary disability retirement.
- Surviving spouses and children of Teacher members and Employee members of political subdivisions who die as the natural and proximate result of injuries suffered while in the performance of duty. Payment of the subsidy ceases when (i) the dependent child attains age 18, or 23, if attending school on a full-time basis, or (ii) the spouse remarries.
- Vested terminated Teacher members and Employee members of political subdivisions and spouses who completed at least 20 years of creditable service and prior to July 1, 2008 receive an allowance and who subsequently attain age 60.
- Teacher members and Employee members of political subdivisions and spouses who retire after completing at least 20 years of creditable service and who subsequently attain age 60 before July 1, 2008 or who complete at least 30 years of creditible service and who subsequently attain age 55 before July 1, 2008.

- Spouses of Teacher members and Employee members of political subdivisions who died in active service after attaining the eligibility requirements for the subsidy, and who elected a refund of contributions.
- Employee members of the State and spouses (or beneficiaries including disabled children) who retire on or before July 1, 2004 at age 60 with at least 20 years of creditable service or at age 55 through 59 with at least 30 years of creditable service on a service or ordinary disability retirement.
- Surviving spouses and children of Employee members of the State who die as the natural and proximate result of injuries suffered while in the performance of duty. Payment of the subsidy ceases when (i) the dependent child attains age 18 or age 23, if attending school on a full-time basis (ii) the spouse remarries.
- Vested terminated Employee members of the State and spouses who completed at least 20 years of creditable service and prior to July 1, 2004 receives an allowance and who subsequently attains age 60.
- Employee members of the State and spouses who retire after completing at least 20 years of creditable service and who subsequently attains age 60 before July 1, 2004 or after completing at least 30 years of creditable service and who subsequently attains age 55 before July 1, 2004.
- Employee members of the State who died in active service after attaining the eligibility requirements for the subsidy, and who elected a refund of contributions.

The following Group II members are eligible for coverage under the postretirement medical plan:

- Active or retired police members (or beneficiaries) as of June 30, 2000.
- Active or retired firefighter members (or beneficiaries) as of June 30, 2000.
- Persons who, prior to July 1, 1988, had completed at least 20 years of Group II service and are eligible as of July 1, 1993 for a vested deferred retirement benefit.
- Group I members retired as of July 1, 1991 with a split benefit under RSA 100-A:19-c who have at least 10 years of Group II service.
- Members as of June 30, 2003 who subsequently become disabled while in the performance of duty at any time in the future.
- Surviving spouses of deceased Group II members who retired prior to April 1, 1987 and who are not receiving a monthly allowance.

The System subsidy generally covers the retired member's spouse and any of the retired member's certifiably dependent children with a disability.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

BASIS OF ACCOUNTING

The System consists of a Pension Plan with a separate Postretirement Medical Plan for certain Group I and Group II retirees. The assets of the two plans are pooled together for investment purposes. Investment income and investment expenses are prorated between the two plans based on the net assets. The financial statements of these plans are prepared on the accrual basis of accounting. Contributions are recognized as revenue in the period when they become due pursuant to formal commitments or statutory or contractual requirements. Investment income is recognized as it is earned. Benefits, refunds and investment expenses are recognized when they become due and payable. Net appreciation (depreciation) in the fair value of investments is recorded as an increase (decrease) to investment income based on the valuation of investments as of the date of the financial statements. Trade commissions and related transaction costs are netted out against the fair value of investments.

The financial statements include certain prior year summarized comparative information in total but not by separate plan. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the audited financial statements for the year ended June 30, 2001, from which the summarized information was derived. Certain amounts for fiscal year 2001 have been reclassified to conform to the fiscal year 2002 presentation.

INVESTMENTS

Investments in both domestic and international securities are valued at current market prices and international securities are expressed in U.S. dollars. Global fixed income investments include investments in international and U.S. bonds. International equity represents investment in non-U.S. stocks only. The System uses the trade date basis for accounting of these investments. Commercial real estate properties are organized into separate holding companies which are wholly-owned by the System for the purpose of limiting the System's liability to the carrying value of each individual property. The appraised value of the real estate, as well as the fair value of the related assumable mortgage notes payable are considered in determining the fair value of these investments. The System has adopted a cyclical approach for external appraisals. Properties are selected for external appraisals based on the advice of the System's consultant. Investment manager fair value estimates are used during the interim years. Properties held for sale are reported net of disposition costs. Alternative investments include investments in limited partnerships and other structured alternative investments. Timberfunds and alternative investments are valued at fair value by the portfolio managers. Temporary Investments are valued at cost which reflects approximate fair value. Temporary Investments represent investments in the pooled short term investment funds managed by the System's custodian. These funds invest mainly in high-grade money market instruments with maturity averaging less than three months. These funds provide daily liquidity and allow the Board to reinvest these funds to other asset classes. As of June 30, 2002, the System had a $75.8 million balance in Temporary Investments. Of this balance, $50 million was earmarked for absolute return strategy investments. The entire $50 million was invested in three separate funds subsequent to June 30, 2002.

The System does not hold securities of a single organization (other than the U.S. Government) which exceed 5% of the System's plan net assets held in trust for benefits. However, at June 30, 2002 and 2001, the System had $243.2 million and $154.5 million, representing 6.2% and 3.6%, respectively, of plan net assets invested for liquidity purposes in pooled short-term investment funds managed by the System's custodian.

The System holds no investments, either directly or indirectly, nor participates in any loans or leases, or other party-in-interest transactions with any System officials, New Hampshire State Government officials, or parties related to these officials.

FIXED ASSETS

Fixed assets acquired by the System are recorded in the financial statements in accordance with the System's fixed asset policy. During fiscal year 2002, $822 thousand of costs associated with the development of the System's new pension administration system were capitalized as fixed assets. These costs will be depreciated over the useful life of the pension administration system once the system is placed in operation. For fiscal year 2002 this fixed asset is still under development, therefore, depreciation was not recognized.

NEW ACCOUNTING STANDARDS

The System adopted Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments,* No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus,* and No. 38, *Certain Financial Statement Note Disclosures*, in fiscal year 2002. The only significant change to the System's financial statements required by these new standards is the addition of the Management's Discussion and Analysis as required supplementary information.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Fair values for commercial real estate and alternative investments have been estimated in the absence of readily available fair values, and these estimates may be materially different than values that would have been used had a ready market existed for these investments.

NOTE 3 — INVESTMENTS AND DEPOSITS

RSA 100-A:15, I, authorizes the members of the Board of Trustees to manage, invest and reinvest all of the assets and proceeds, and related income, and all contributions and payments made to the System exercising the judgment and care under the circumstances then prevailing, which persons of prudence, discretion and intelligence, acting in a like capacity and familiar with such matters, would use in the conduct of a pension plan of like character and with like aims of the System.

To aid in the prudent investment of the System's assets, the Board of Trustees established a formal investment policy document. This policy may be modified by Board action as the Board deems necessary. Contained in the policy are guidelines and objectives for various investment types. Investment types include domestic equity and fixed income securities (including mortgage backed securities and structured notes), cash equivalents, commercial real estate, international equity and global fixed income securities, alternative investments including venture capital investments, private placements and timberfunds.

DERIVATIVES

The System's investment policy allows investment managers to invest in mortgage backed securities and also allows managers to use options, futures and currency forward contracts in international equity and domestic and global fixed income portfolios for the purposes of currency risk management of non-U.S. investments. The System's investment policy has pre-established thresholds to limit the risk exposure on these investments.

As of June 30, 2002 and June 30, 2001, the System had $177.3 million (4.5%) and $192.3 million (4.4%) of total investments, respectively, invested in non-leveraged mortgage backed securities. The investments in mortgage backed securities are reported at current market value and are allowed by the System's investment guidelines to diversify risk and to closely match the weighting of the mortgage backed position of System funds with the Lehman Brothers Universal Bond Index for fixed income securities. Investments in mortgage backed securities were also permitted because of the excess return they offer over other fixed income securities.

Based upon the advice of the System's investment consultants and investment constraints within RSA 100-A:15 and the System's Investment Policy and Guidelines, the investments in mortgage backed securities and currency forward contracts do not, in the System's judgment, have any legal risk.

With respect to credit risk, the mortgage backed securities are issues of U.S. Government Agencies. All issues are rated AAA or above by both Standard & Poors and Moody's. The currency forward contracts are executed through large money center banks with credit rating standards. The credit risk exposure could be with the bank counterparty. Depending on the bank, the degree of credit risk could vary. However, based on the assessment of the System's investment managers and investment consultants, the risk is minimal.

The market risk of mortgage backed securities is dependent on two variables: the type of security and its sensitivity towards a change in interest rate. The degree of change in market value is also predicated on the structure of these securities. Based on ratings specifically designed for mortgage backed securities, the System's holdings as of June 30, 2002 and June 30, 2001 have market risk ratings within the range of "low" to "moderate to high."

SECURITIES LENDING

The System has a Securities Lending agreement with its master custodian. In accordance with this agreement the System participates in a domestic and international equity securities lending program administered by the custodian. In management's opinion, the custodian is in full compliance with the contractual provisions of this agreement. The System receives a fee based on the market value of the loaned securities. During the duration of the loan, the System receives dividends and coupon payments equivalent to amounts that would be received had the securities not been loaned.

Collateral for loaned securities may include U.S. and non-U.S. currencies, Organization for Economic Co-operation and Development (OECD) government securities, equities or irrevocable letters of credit. U.S. securities are loaned in consideration of collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned against collateral valued at 105% of the market value of the securities plus any accrued interest, except that fixed income securities can be loaned against same currency collateral at 102% plus any accrued interest. The actual collateral value was equal to 103.2% for U.S. securities and 104.3% for non-U.S. securities at June 30, 2002 and 102.4% for U.S. securities and 107.1% for non-U.S. securities at June 30, 2001. Collateral is marked-to-market daily. If the market value of the collateral falls below the minimum collateral requirements, additional collateral is provided by the participating borrower subject to established minimum thresholds. The weighted average maturity of the collateral investment fund is limited to a maximum of 60 days.

The System is indemnified by the custodian in the event a borrower does not return loaned securities due to the insolvency of the borrower and the custodian has failed to live up to its contractual responsibilities. The custodian's responsibilities, as a lending agent, include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

The market value of securities on loan, the collateral held, and the security lending income as of June 30, 2002 and June 30, 2001 are presented below.

SECURITIES LENDING ACTIVITIES	($ in millions)	
	2002	2001
Market Value of U.S. and Non-U.S. Securities on Loan	$382.3	$433.8
Collateral Held Against U.S. and Non-U.S. Securities	$395.7	$450.5
Ratio of Collateral held to Loan Securities	103.5%	103.8%
Net Income From Securities Lending Program	$1.377	$1.604

The System did not incur any losses on loaned securities during the fiscal years ended June 30, 2002 and June 30, 2001. Credit risk on loaned securities is managed by restricting loans to parties on the custodian's approved list and by following established outstanding credit limits for each borrower, as set by the custodian. Due to the nature of the program's collateralization of all loans at 102% or 105%, plus accrued interest, management believes that there is no credit risk since the System owes borrowers more than the borrower owes the lender.

Loaned securities are included in the Statement of Plan Net Assets since the System maintains ownership. For loans collateralized by cash, the value of the collateral is recorded as a liability offsetting the cash collateral recorded as an asset. The cash collateral for U.S. and non-U.S. securities as of June 30, 2002 and June 30, 2001 were $342.9 million and $400.3 million, respectively. For loans having collateral other than cash, the related collateral securities are not recorded as assets in the Statement of Plan Net Assets, and a corresponding liability is not recorded, since the System cannot pledge or sell the collateral securities, except in the event of a borrower's default. The System does not use reverse repurchase agreements.

DEPOSITS AND INVESTMENTS

The following is a summary of the deposit and investment portfolio as of June 30, 2002 and 2001. Investing by the discretionary investment managers is regulated by the investment policy and guidelines developed by the Board of Trustees and by provisions of RSA 100-A:15 of the State of New Hampshire.

(a) At June 30, 2002, the carrying amount of the System's deposits was $2.8 million and the bank balance was $11.0 million. At June 30, 2001, the carrying amount of the System deposits was $3.6 million and the bank balance was $10.1 million. The deposits are held in one financial institution. Of the bank balances at June 30, 2002 and 2001, $100,000 was covered by federal depository insurance. The remaining bank balance amounts at June 30, 2002 and 2001 were uninsured and uncollateralized.

(b) The table on the next page provides information about the credit risk associated with the System's investments. The table is segmented by the following risk categories:

- Category 1 includes investments in securities that are insured, or registered, or for which the securities or investments are held by the System, or its agents in the System's name.
- Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department (if a bank) or agent(s), in the System's name.
- Category 3 includes uninsured and unregistered investments in securities held by the counterparty in the System's name or the counterparty's trust department (if a bank) or agent(s), but not in the System's name.
- Non-categorized investments are those that do not meet the criteria set forth in categories 1, 2 and 3.

INVESTMENTS BY RISK CATEGORY	(in thousands)	
	FAIR VALUE AT JUNE 30	
	2002	2001
CATEGORY 1		
Securities Not On Loan:		
Common Stock	$1,714,767	$2,018,852
Preferred Stock	4,773	7,608
Corporate Bonds	282,824	236,813
Convertible Corporate Bonds	13,489	3,703
U.S. Government and Agency Bonds	435,958	452,627
Asset Backed Bonds	58,512	74,774
Collateralized Mortgage Bond Obligations	82,314	75,182
Commercial Paper	—	30,013
Securities On Loan for Non-Cash Collateral:		
Common Stock	30,397	26,232
Corporate Bonds	1,460	—
U.S. Government and Agency Bonds	18,750	19,543
TOTAL CATEGORY 1	**2,643,244**	**2,945,347**
CATEGORY 2		
No Investments	—	—
CATEGORY 3		
Common Stock	52	—
Foreign Currency	63	415
Foreign Currency Held as Call Deposits	1,996	1,016
U.S. Government Bonds	532	499
TOTAL CATEGORY 3	**2,643**	**1,930**
NON-CATEGORIZED		
Held by Broker/Dealers Under Securities Loans with Cash Collateral:		
Common Stock	223,137	239,235
Corporate Bonds	48,110	34,502
U.S. Government and Agency Bonds	43,181	68,184
International Government Bonds	17,304	46,061
Commercial Real Estate	387,127	414,059
Timberfunds	95,082	127,348
Limited Partnerships and Other Structured Alternative Investments	207,650	287,062
Pooled International Bond Fund	—	17,603
Pooled Short Term Investment Funds*	243,183	154,470
TOTAL NON-CATEGORIZED	**1,264,774**	**1,388,524**
TOTAL INVESTMENTS	**$3,910,661**	**$4,335,801**
Securities Lending Collateral Investment Pool (Non-Categorized)	$ 342,871	$ 400,277

*The pooled short term investment funds are managed by the System's custodian, The Northern Trust Company. These funds invest mainly in high-grade money market instruments with maturities averaging less than three months. These funds provide participants with daily liquidity.

NOTE 4—FUNDING PROGRESS

The System determines the annual required contribution using the open group aggregate funding method. This method does not identify or separately amortize unfunded actuarial liabilities. In accordance with GASB 25 guidelines, therefore, a schedule of funding progress is not presented as part of these financial statements.

NOTE 5—SIGNIFICANT CHANGES IN ACTUARIAL ASSUMPTIONS AND PENSION BENEFIT PROVISIONS OCCURRING SINCE THE JUNE 30, 1999 ACTUARIAL VALUATION

Changes in actuarial assumptions for fiscal year 2002:

Actuarial valuations are performed on a biennial basis. There have been no changes in actuarial assumptions since the last actuarial valution was performed as of June 30, 2001.

Legislation was enacted in the 2002 legislative session which:

(a) Establishes provisions for the direct transfer of funds from Sections 403(b) or 457 retirement arrangements for the purchase of permissive service credit in the New Hampshire Retirement System.

(b) Allows for retirement system members who have prior service for which accumulated contributions were withdrawn to purchase a partial amount of such prior service, removes requirements for legislative review of the investment practices of retirement system assets, eliminates a biennial report to the legislature on the status of the retirement system and changes the date from January 1, 2002 to July 1, 2001 for the application of certain provisions providing for the repayment by the retirement system and the state of the cost of medical benefits for retired state employees.

(c) Establishes a committee to study the eligibility of state employees to receive a retirement system benefit while in service, establishes a moratorium on eligibility for unclassified and nonclassified employees to elect to receive such a retirement allowance, and repeals in 2003 the provision allowing certain state employees to receive a retirement allowance while in service.

(d) Extends the Group II 401(h) insurance subsidy to active or retired Police Officers and Firefighters who become members prior to July 1, 2003 and subsequently become disabled as the natural and proximate result of injuries suffered while in the performance of duty at any time in the future.

(e) Allows school districts currently in the retirement system or those electing to join the retirement system to include certain additional paraprofessional and support position employees.

(f) Provides a 5% cost-of-living adjustment to Firefighters in the retirement system who retired on or before July 1, 1994.

In addition the fiscal committee, in accordance with RSA 100-A;41-a, II approved the following cost-of-living adjustments (COLAs):

(g) Provides a 2.0% COLA for Employees and Police Officers, and a 3.0% COLA for Teachers and Firefighters who retired prior to July 1, 2001, effective July 1, 2002.

Items (a), (b), (c) will have no effect on the normal rate. Items (d) and (f) will have no effect on the normal rate, since as required by the legislation, the costs are terminally funded from the Special Account at a cost of $6.0 million. Item (e) will have no significant effect on the normal rate.

Changes in actuarial assumptions for fiscal year 2001:

The postretirement mortality assumption for Teachers and Firefighters and the demographic assumptions for all membership classifications were revised to more closely reflect the actual experience of the System. This change will increase or (decrease) the normal contribution rates by 0.77% for Employees, (0.64%) for Teachers, 1.36% for Police Officers and 2.76% for Firefighters.

Legislation was enacted in the 2001 legislative session which:

(a) Allows the Director of Safety Services to maintain Group II status if he/she was a Group I member for at least 10 years prior to the appointment as Director.

(b) Allows unclassified and non-classified State employees to withdraw from System membership and receive a service retirement pension without being subject to restoration to service limitations.

(c) Provides a supplemental allowance which would increase all Group I members who retired prior to July 1, 1991 under a full service retirement with at least 20 years of creditable service or under a disability retirement to a minimum annual pension of $8,500. Beneficiaries of eligible members would also be eligible for the supplemental allowance except the specified amount of $8,500 shall be multiplied by a ratio of the beneficiary's annual retirement allowance to the member's annual retirement allowance.

(d) Allows the Director or Assistant Director of Police Standards and Training to maintain Group II status if he/she has been a Group II member for at least 10 years.

(e) Allows county corrections personnel to purchase prior Group I service in any county corrections facility.

(f) Allows retirees whose spouse predeceases them to designate a new spouse as their beneficiary.

(g) Abolishes the administrative cost assessment to employers by authorizing the administrative costs of the System to be drawn from the System funds.

(h) Allows the Board of Trustees to make decisions concerning the budget for the System and the services of outside legal counsel.

(i) Provides the 401(h) postretirement medical premium effective January 1, 2002 for the following Group I members:

- Employee members of the State and spouses (or beneficiaries including disabled children) who retire on or before July 1, 2004 at age 60 with at least 20 years of creditable service or at age 55 through 59 with at least 30 years of creditable service on a service or ordinary disability retirement.
- Surviving spouses and children of Employee members of the State who die as the natural and proximate result of injuries suffered while in the performance of duty. Payment of the subsidy ceases when (i) the dependent child attains age 18 or age 23, if attending school on a full-time basis or (ii) the spouse remarries.
- Vested terminated Employee members of the State and spouses who completed at least 20 years of creditable service and prior to July 1, 2004 receives an allowance and who subsequently attains age 60.
- Employee members of the State and spouses who retire after completing at least 20 years of creditable service and who subsequently attains age 60 before July 1, 2004 or after completing at least 30 years of creditable service and who subsequently attains age 55 before July 1, 2004.
- Employee members of the State who died in active service after attaining the eligibility requirements for the subsidy, and who elected a refund of contributions.

(j) Extends 401(h) postretirement medical premium to the following Group I members:

- Teacher members and Employee members of political subdivisions and spouses (or beneficiaries including disabled children) who retire on or before July 1, 2008 at age 60 with at least 20 years of creditable service or at age 55 through 59 with at least 30 years of creditable service on a service or ordinary disability retirement.
- Surviving spouses and children of Teacher members and Employee members of political subdivisions who die as the natural and proximate result of injuries suffered while in the performance of duty. Payment of the subsidy ceases when (i) the dependent child attains age 18 or age 23, if attending school on a full-time basis or (ii) the spouse remarries.
- Vested terminated Teacher members and Employee members of political subdivisions and spouses who completed at least 20 years of creditable service and prior to July 1, 2008 receives and allowance and who subsequently attains age 60.
- Teacher members and Employee members of political subdivisions and spouses who retire after completing at least 20 years of creditable service and who subsequently attains age 60 before July 1, 2008 or after completing at least 30 years of creditable service and who subsequently attains age 55 before July 1, 2008.

- Spouses of Teacher members and Employee members of political subdivisions who died in active service after attaining the eligibility requirements for the subsidy, and who elected a refund of contributions.

(k) Extends the Group II 401(h) insurance subsidy to active or retired Police Officers and Firefighters prior to July 1, 2000, and to Group II employees who became members prior to July 1, 2002 and subsequently become disabled as the natural and proximate result of injuries suffered while in the performance of duty at any time in the future.

(l) Makes a bonded appropriation for the payment of the unfunded accrued liability which is paid through additional normal rates.

(m) Allows a member to go to the Board to request inclusion of severance pay as earnable compensation past the 120 day limitation, if such pay was delayed by no fault of the member.

(n) Allows those retiring on disability 120 days following the Board's approval of their disability benefits to change their option selection.

As result of the legislation for items (i), (j) and (k), $160.4 million was transferred during fiscal year 2002, based on the effective date of the legislation, from the Pension Plan to the Postretirement Medical Plan.

In addition, the fiscal committee, in accordance with RSA 100-A; 41-a, II, approved the following cost-of-living adjustments (COLAs):

(o) Provides a 3.5% COLA for Employees, Teachers, Police Officers and Firefighters who retired prior to July 1, 2000, effective July 1, 2001.

The above amendments were reflected in the June 30, 2001 valuation.

Items (c), (i), (j), (k) and (o) will have no effect on the normal rate determined using the open group aggregate funding method because, as required by the legislation, the costs are terminally funded from the Special Account at a cost of $227.4 million. Items (a), (b), (d), (e), (f), (g), (h), (l), (m) and (n) will have no significant effect on the normal rate.

NOTE 6—CONTRIBUTIONS AND RESERVES

As a condition of participation, members are required to contribute a set percentage of their salary to the System. The percentage rates, as outlined on page 42, are set by statute under RSA 100-A:16 and depend on the member's group affiliation. Present contributing members' actual accumulated contributions including interest at June 30, 2002 were $1,575.7 million and accumulated contributions with interest at June 30, 2001 were $1,482.0 million.

RSA 100-A:16 outlines the employer contributions made to the New Hampshire Retirement System. Employer contributions to the System since fiscal year 1992 have been determined on an actuarial basis using the open group aggregate cost method. (The results from the open group aggregate cost method for fiscal years prior to July 1, 2003 cannot be less than the normal rate determined to produce a funding ration of 130% over a 20 year horizon and an 8% interest rate. The results from the open group aggregate cost method for fiscal years beginning on or after July 1, 2003 cannot be less than the normal rate determined to produce a funding ratio of 115% over a 20 year preriod and an 8% interest rate.) Prior to fiscal year 1992, employer contributions were based on the frozen initial liability-entry age normal actuarial cost method. The normal cost under this method was funded on a current basis. An unfunded accrued liability was determined as of June 30, 1968 for each member classification. The amount of accrued liability contribution was then computed as the level dollar amount required to discharge this initial unfunded liability over a 20-year period from June 30, 1968. Both the unfunded liability and the accrued liability contribution have been adjusted from time to time since 1968, either to reflect changes in the actuarial assumptions, or as a result of special legislation authorizing additional transfers of members from one of the predecessor systems or between groups in the new system or providing certain improvements in the benefit provisions. It should be noted that the accrued liability contributions have been retained under the open group aggregate method out of equity among the various sponsors.

Pursuant to RSA 100-A:52a, postretirement medical premium subsidies are provided to certain Group I members and Group II members by a medical plan subtrust. Under Section 401(h) of the Internal Revenue Code qualified retirement plan trusts may pay for postretirement medical premiums. These payments are funded through contributions of the employers, which may not exceed 33⅓% of the normal cost for the respective membership classification. As provided by RSA 100-A:53, I, 33⅓% of certain Group I and Group II employer contributions are paid into the Medical Plan Subtrust. Subsequently, a transfer is made from the Medical Special Account to the pension plan equal to the contributions made to the Medical Plan Subtrust.

The State funds 100% of the employer normal costs for all State employees, and 35% of the employer normal costs for teachers, police officers, and firefighters employed by political subdivisions. The State does not participate in funding the employer cost of other political subdivision employees. The State funds its portion of the unfunded accrued liability as a level dollar amount. Legislation was enacted during fiscal year 2001 that required the State to contribute the balance of the unfunded liability attributable to the State for Group I and Group II members previously funded by an additional normal contribution. The entire balance of $5.1 million of the State's unfunded accrued liability funded by an additional normal contribution was paid in full on August 14, 2001. The funding strategy for normal cost and the unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

The annual covered payrolls for the years ended June 30, 2002 and 2001 were $1,700.2 million and $1,615.9 million, respectively.

The table below shows the percentages of gross payroll contributed by the State, other contributing employers, and members. The employer share for fiscal year 2001 excludes administrative expense loading of 0.30%.

PERCENT OF COVERED PAYROLL FOR RETIREMENT BENEFITS

	(FY 2002)				(FY 2001)			
	Member Normal	Employer Normal Share			Member Normal	Employer Normal Share		
Member Category	Share	State	Local	Total	Share	State*	Local**	Total
Employees								
State	5.00%	4.14%	—	4.14%	5.00%	3.94%	—	3.94%
Local	5.00%	—	4.14%	4.14%	5.00%	—	3.94%	3.94%
Teachers	5.00%	1.39%	2.58%	3.97%	5.00%	1.44%	2.67%	4.11%
Police Officers	9.30%	2.87%	5.33%	8.20%	9.30%	2.50%	4.63%	7.13%
Firefighters	9.30%	3.56%	6.61%	10.17%	9.30%	2.91%	5.39%	8.30%

* Excludes .01%, .01%, .22%, and .14% for Employees, Teachers, Police Officers, and Firefighters, respectively which is the State's additional normal cost percentage to fund a portion of the unfunded accrued liability. The State's portion of the total unfunded accrued liability as of June 30, 2001 that is funded as a percent of covered payroll is $1,522,534, $603,594, $2,446,514 and $498,741 for Employees, Teachers, Police Officers, and Firefighters, respectively. The State's total unfunded accrued liability at June 30, 2001 is $5,071,383.

** Excludes percentage for unfunded accrued liability contribution.

The following tables show the amounts contributed by participating employers and members and these contributions expressed as a percentage of the respective covered payrolls.

AMOUNTS CONTRIBUTED

(in thousands)

	(FY 2002)				(FY 2001)			
Member Category	Member Normal Share	Employer Normal Share*	Employer Accrued Liability*	Total Contributions	Member Normal Share	Employer Normal Share*	Employer Accrued Liability*	Total Contributions
Employees	$ 39,378	$30,807	$ 25	$ 70,210	$34,791	$26,699	$135	$ 61,625
Teachers	38,860	29,218	63	68,141	36,189	28,945	107	65,241
Police Officers	17,761	15,349	289	33,399	16,417	12,343	466	29,226
Firefighters	7,212	7,619	146	14,977	6,602	5,779	182	12,563
Total Contributed	$103,211	$82,993	$523	$186,727	**$93,999**	**$73,766**	**$890**	**$168,655**

* Includes contributions made both by State and local employers and payments made on behalf of the employers.

AMOUNTS CONTRIBUTED EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL

Member Category	(FY 2002) Member Normal Share	Employer Normal Share	Employer Accrued Liability	Total	(FY 2001) Member Normal Share	Employer Normal Share	Employer Accrued Liability	Total
Employees	5.49%	4.30%	—	9.79%	5.14%	3.95%	0.02%	9.11%
Teachers	5.32%	4.00%	—	9.32%	5.17%	4.13%	0.02%	9.32%
Police Officers	9.81%	8.47%	0.16%	18.44%	9.57%	7.20%	0.27%	17.04%
Firefighters	10.20%	10.78%	0.21%	21.19%	9.78%	8.56%	0.27%	18.61%
Total Contributed	**6.07%**	**4.88%**	**0.03%**	**10.98%**	**5.82%**	**4.57%**	**0.06%**	**10.45%**

The following table shows the percentages of gross payroll contributed by the State, other contributing employers, and members to provide postretirement medical premiums for certain Group I and Group II members.

PERCENT OF COVERED PAYROLL FOR POSTRETIREMENT MEDICAL PREMIUMS

Member Category	(FY 2002) Member Normal Share	Employer Normal Share State	Employer Normal Share Local	Employer Normal Share Total	(FY 2001) Member Normal Share	Employer Normal Share State	Employer Normal Share Local	Employer Normal Share Total
Employees								
State	—	1.38%	—	1.38%	—	1.31%	—	1.31%
Local	—	—	1.38%	1.38%	—	—	1.31%	1.31%
Teachers	—	0.46%	0.86%	1.32%	—	0.48%	0.89%	1.37%
Police Officers	—	0.96%	1.77%	2.73%	—	0.83%	1.54%	2.37%
Firefighters	—	1.19%	2.20%	3.39%	—	0.97%	1.80%	2.77%

For the purpose of determining the actuarial value of assets to be used in computing employer pension contribution rates, the actuary uses a five-year moving average of fair values based on unit values. The initial value is then compared with book value and fair value of assets and the middle value is used to compute contribution rates, however, it cannot be lower than the five year average value.

The computation of the forecasted employer pension contribution rates effective for fiscal year 2002 was performed as part of the June 30, 1999 actuarial valuation of the System and was based on the open group aggregate method and a 9% interest assumption. As required by RSA 100-A:16 II(d), the results of the open group aggregate method for fiscal years prior to July 1, 2003 cannot be less than the normal rates required to maintain a funded ratio of 130% over a 20 year horizon and an 8% interest rate. The results of the open group aggregate method for fiscal years on or after July 1, 2003 cannot be less than the normal rate determined to produce a funding ratio of 115% over a 20 year horizon and an 8% interest rate. It is the practice of the System to use as actual contribution rates the forecast rates from the previous valuation. By using the forecast rates, the System delays implementation of the rates proposed by the actuary until the beginning of the subsequent biennium allowing employers to budget for changes in employer rates. The employer normal contribution rates for the 2002 and 2001 fiscal years were based on the June 30, 1999 and June 30, 1997 actuarial valuations, respectively, as required by the Board of Trustees.

A reconciliation of the normal rates determined in the June 30, 1999 valuation to the normal rates determined in the June 30, 2001 valuation is provided on the next page. This reconciliation outlines the effects on the normal contribution rates of the changes in System benefits and actuarial assumptions that have occurred since the June 30, 1999 actuarial valuation.

Reconciliation of the Actuarial Projected Employer Normal Contribution Rates as of June 30, 2001 (Exclusive of Administrative Expense Loading)

	Employees	Teachers	Police Officers	Firefighters
Forecasted Employer Normal Rates as Determined by 6/30/1999 Valuation*	4.14%	3.97%	8.20%	10.17%
Decremental Experience	.13	.04	.32	.38
Pensioners' Experience	.03	.01	.04	.12
Excess Salary Increases	—	(.10)	.37	.57
Assets Different than Expected	.20	.25	.60	.67
Current New Entrants	(.05)	(.07)	(.06)	(.06)
Assumption Changes**	.72	(.70)	1.24	2.67
Balancing Items	(.05)	.04	(.24)	(.11)
Forecasted Employer Normal Rates as Determined by 6/30/2001 Valuation	5.12%	3.44%	10.47%	14.41%

This reconciliation is based on the open group aggregate method and a 9% interest rate.

* Excludes administrative expense of 0.30%

** Includes new entrant population assumption changes.

The following table provides a breakdown of net assets held in trust for benefits:

NET ASSETS HELD IN TRUST FOR BENEFITS	(in thousands)	
	JUNE 30	
	2002	2001
Employees	$ 950,702	$1,033,867
Teachers	1,298,141	1,418,896
Police Officers	588,359	643,767
Firefighters	263,478	292,288
Special Account	398,317	609,845
Special Medical Account	368,930	263,995
401(h) Subtrust	68,548	72,083
Administrative Assessment	—	5,529
TOTAL NET ASSETS HELD IN TRUST FOR BENEFITS	**$3,936,475**	**$4,340,270**

SPECIAL ACCOUNT

RSA 100-A:16, II(h) established a Special Account for additional benefits. Prior to July 1, 1996, the Special Account was credited annually with all of the earnings on an actuarial basis of the Special Account assets plus a portion of the earnings of the remaining assets of the System in excess of the assumed rate of return. For the fiscal years from July 1, 1992, the annual rate of return was set at 9% by the Board of Trustees. For the year ended June 30, 1992, the assumed rate of return was set at 9.75%; however, special legislation adopted for Fiscal 1992 required that only returns in excess of 10% be credited to the Special Account. For the years ended June 30, 1991 and prior, the assumed rate of return was set at 8%.

Beginning with the fiscal year ended June 30, 1997, the Special Account is credited annually with all of the earnings of the Special Account assets plus the earnings of the remaining assets of the System in excess of the assumed rate of return plus 1/2 of 1%. The Board of Trustees set the rate of return on assets at 9% for the year ended June 30, 2002; thus, for the year ended June 30, 2002, earnings in excess of 9.50%, if any, have been credited to the Special Account.

As of June 30, 2002, the balance of the Special Account was $398.3 million. The comparable figure for June 30, 2001 was $609.8 million. Legislation costing $43.2 million which was enacted during the 2002 legislative session, with an effective date after June 30, 2002, will be terminally funded from assets in the Special Account. The assets held in the Special Account are not used in the actuarial determination of the normal contribution rate and by statute shall only be used to fund or partially fund additional benefits for members of the System.

MEDICAL SPECIAL ACCOUNT

RSA 100-A:53 established the Medical Special Account to provide postretirement medical premiums for certain Group I Employees of the State, Group I Employees of political subdivisions, Group I Teachers and Group II Members effective July 1, 2001, January 1, 2001, January 1, 2000, and July 1, 1988, respectively. The Medical Special Account reimburses the Pension Trust in an amount equal to the funds allocated to the Medical Plan Subtrust. The reimbursements are to continue until the benefits provided through the Medical Plan Subtrust are fully funded or until the Medical Special Account has no assets.

The fair value of the Group I and Group II Medical Special Account is $212.1 million and $156.9 million respectively, as of June 30, 2002.

NOTE 7—CONTINGENCIES

In the opinion of management and legal counsel, there are no contingent matters that would have a material adverse effect on the System's financial status.

NOTE 8—ADMINISTRATIVE EXPENSES

Expenses related to the administration of the System are budgeted and approved by the System's Board of Trustees, and are subject to appropriation biennially by the State Legislature. Administrative expenses are included in the System's financial statements.

Based on legislation effective July 1, 2001, the administrative costs incurred by the System are funded directly from net plan assets. Prior to July 1, 2001, administrative expenses were funded through an administrative assessment that was collected from participating employers based on a percentage of member gross wages. In accordance with the legislation, administrative assessment balances accrued prior to July 1, 2001 were retained by the System and were expended for ongoing operations.

Administrative expenses consist primarily of salaries and benefits for 56 full-time employees and the costs associated with operating and maintaining computer systems needed for pension and postretirement medical plan activities.

A detailed schedule of the budgeted and actual administrative expenditures for fiscal years 2002 and 2001 is shown on page 56.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS—PENSION PLAN (UNAUDITED)

Fiscal Year	Classification	Annual Required Contribution (ARC)* (in thousands)	Percent of ARC Recognized as Contributions
2002	Employees	$29,703	100.00%
	Teachers	29,122	100.00%
	Police Officers	15,569	100.00%
	Firefighters	7,730	100.00%
2001	Employees	26,411	100.00%
	Teachers	29,025	100.00%
	Police Officers	12,792	100.00%
	Firefighters	5,960	100.00%
2000	Employees	25,443	100.00%
	Teachers	26,836	100.00%
	Police Officers	11,776	100.00%
	Firefighters	5,643	100.00%
1999	Employees	23,084	100.00%
	Teachers	24,957	100.00%
	Police Officers	7,984	100.00%
	Firefighters	5,251	100.00%
1998	Employees	22,174	100.00%
	Teachers	23,769	100.00%
	Police Officers	7,899	100.00%
	Firefighters	5,016	100.00%
1997	Employees	17,270	100.00%
	Teachers	18,844	100.00%
	Police Officers	5,700	100.00%
	Firefighters	4,250	100.00%

* Includes unfunded accrued liability contributions, excludes oversight contributions.

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS POSTRETIREMENT MEDICAL PLAN (UNAUDITED)

Fiscal Year	Classification	Annual Required Contribution (ARC)* (in thousands)	Percent of ARC Recognized as Contributions
2002	Employees	$8,456	100.00%
	Teachers	9,862	100.00%
	Police Officers	5,108	100.00%
	Firefighters	2,532	100.00%
2001	Employees	2,585	100.00%
	Teachers	9,758	100.00%
	Police Officers	4,074	100.00%
	Firefighters	1,900	100.00%
2000	Teachers	3,858	100.00%
	Police Officers	2,826	100.00%
	Firefighters	1,353	100.00%
1999	Police Officers	1,884	100.00%
	Firefighters	1,275	100.00%
1998	Police Officers	1,797	100.00%
	Firefighters	1,246	100.00%
1997	Police Officers	1,223	100.00%
	Firefighters	1,050	100.00%

* Excludes premiums paid for members retired prior to June 30, 2000.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

See accompanying independent auditors' report.

NOTES TO TREND DATA

The Schedules of Employer Contributions shown on the previous page were based on the following information:

Valuation Date:	
Schedules of Employer Contributions—FY 2002	June 30, 1999.
Actuarial Cost Method:	Open group aggregate. The open group aggregate funding method does not identify or separately amortize unfunded actuarial liabilities. The results of the open group aggregate method cannot be less than the normal rates required to maintain a funded ratio of 130% (effective with the June 30, 2001 and later actuarial valuations, the funded ratio is 115%) over a 20 year horizon and an 8% interest rate.
Amortization Method for Unfunded Accrued Liability:*	Level dollar amount.
Remaining Amortization Period for	
Unfunded Accrued Liability:*	Varies by employer and classification.
Asset Valuation Method:	5 year moving average.
Actuarial Assumptions:	
Investment Rate of Return	9% (Includes inflation at 3.5%).
Projected Salary Increases	Graded scale equates to an annual average of 6% (Includes inflation at 3.5%).
Cost of Living Adjustments	None.
Increase in Medical Premiums	8%.

* Accrued liability contributions have been retained under the open group aggregate method out of equity to the various plan sponsors.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

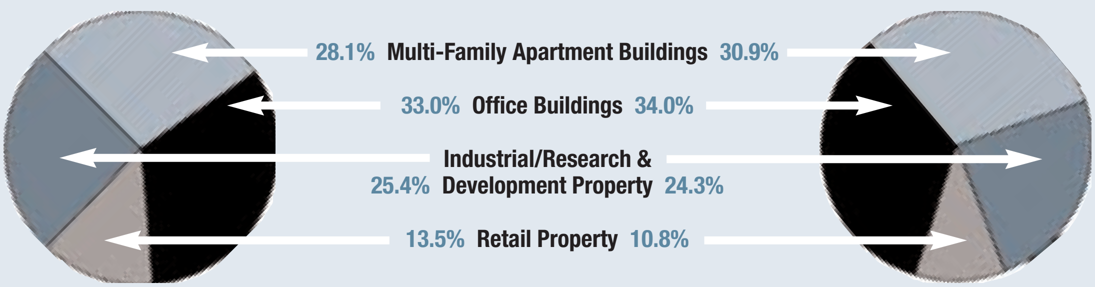
See accompanying independent auditors' report.

COMMERCIAL REAL ESTATE INVESTMENTS BY TYPE (in thousands)

	JUNE 30 2002	JUNE 30 2001
Office Buildings	$127,589	$140,905
Multi-Family Apartment Buildings	108,656	127,779
Retail Property	52,409	44,750
Industrial/Research & Development Property	98,473	100,625
TOTAL COMMERCIAL REAL ESTATE INVESTMENTS BY TYPE	**$387,127**	**$414,059**

Property Type Diversification

At June 30, 2002 | At June 30, 2001

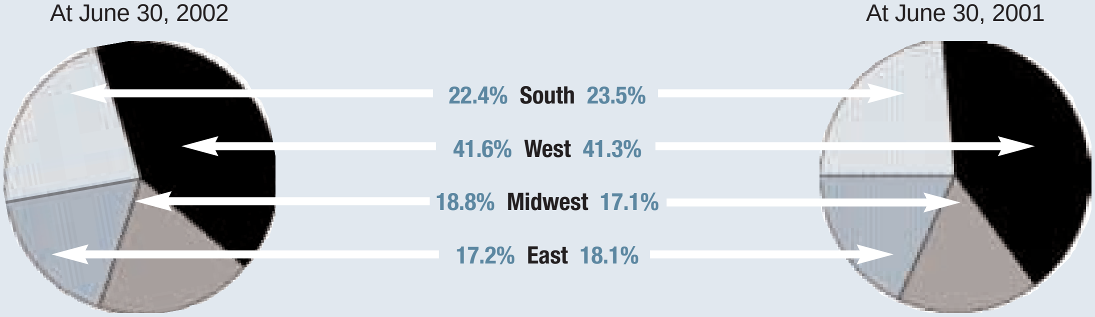


COMMERCIAL REAL ESTATE INVESTMENTS BY LOCATION (in thousands)

	JUNE 30 2002	JUNE 30 2001
West	$160,921	$171,182
East	66,705	75,098
South	86,871	97,130
Midwest	72,630	70,649
TOTAL COMMERCIAL REAL ESTATE INVESTMENTS BY LOCATION	**$387,127**	**$414,059**

Property Location Diversification

At June 30, 2002 | At June 30, 2001



CLICK HERE TO RETURN TO TABLE OF CONTENTS

TIMBERFUNDS AND ALTERNATIVE INVESTMENTS

	JUNE 30 2002	2001
TIMBERFUND INVESTMENTS	(in thousands)	
Domestic Timberfunds:		
Mutual Life Insurance Co. of New York B Fund	$ 4,457	$ 25,916
UBS Timber Investors—RII Timberland 3, LLC	24,321	25,273
International Timberfunds:		
UBS Timber Investors—RII Chile, Ltd.	11,956	22,208
UBS Timber Investors—RII New Zealand Properties I, Inc.	28,719	29,654
UBS Timber Investors—RII New Zealand Properties II, Inc.	9,850	9,621
UBS Timber Investors—RII World Timberfund, L.L.C.	15,779	14,676
TOTAL TIMBERFUND INVESTMENTS	**$95,082**	**$127,348**

ALTERNATIVE INVESTMENTS	(in thousands)	
Vintage 1986–1990:		
Euclid Partners III, L.P.	$ 73	$ 221
Energy Investors Fund I, L. P.	1,038	3,055
Sprout Capital VI, L.P.	447	858
Coral Partners II, L.P.	425	907
Lawrence, Tyrell, Ortale & Smith II, L.P.	24	350
Vintage 1991–1995:		
Venture Capital Fund of New England III, L.P.	806	1,813
New England Growth Fund I, L P.	529	738
Castle Harlan Partners II, L.P.	1,909	2,480
Schroder German Buy-Outs 1992, L.P.	427	508
Energy Investors Fund II, L.P.	4,575	5,448
Coral Partners IV, L.P.	4,687	5,169
Richland Ventures, L.P.	998	1,895
Zero Stage Capital Fund V, L.P.	4,336	5,861
Euclid Partners IV, L.P.	1,368	2,136
APA Excelsior IV, L.P.	5,044	13,140
Sprout Capital VII, L.P.	7,176	9,878
Allegra Capital Partners III, L.P.	657	2,183
Vintage 1996–2000:		
North Atlantic Venture Fund II, L.P.	2,407	5,452
New England Growth Fund II, L.P.	6,342	8,751
TCW/Crescent Mezzanine Partners, L.P.	6,012	6,597
Richland Ventures II, L.P.	4,969	8,484
HEV III US, L.P.	12,524	14,635
Castle Harlan Partners III, L.P.	11,769	14,248
Brand Equity Ventures I, L.P.	3,265	4,659
Prism Venture Partners I, L.P.	11,680	15,948
Coral Partners V, L.P.	5,419	7,315
Sprout Capital VIII, L.P.	4,968	11,170
APA Excelsior V, L.P.	10,648	16,940
Zero Stage Capital Fund VI, L.P.	6,572	16,640
RFE Investment Partners VI, L.P.	6,060	4,407
Prism Venture Partners II, L.P.	22,168	35,802
Weiss, Peck & Greer Venture Associates V, LLC	5,435	8,587
Prism Venture Partners III, L.P.	11,939	12,813
Brand Equity Ventures II, L.P.	3,360	2,774
APAX Excelsior VI, L.P.	5,021	5,004
Vintage 2001–2005:		
Castle Harlan Australian Mezzanine Partners, L.P.	4,211	2,248
Euclid SR Partners, L.P.	6,147	7,080
Crescendo IV, L.P.	3,917	8,599
Zero Stage Capital Fund VII, L.P.	5,344	5,991
Sterling Venture Partners, L.P.	4,104	3,518
Weiss, Peck & Greer Venture Associates VI, L.P.	3,388	2,760
Prism Venture Partners IV, L.P.	4,613	—
Prism Venture Partners II-A, L.P.	849	—
TOTAL ALTERNATIVE INVESTMENTS	**$207,650**	**$287,062**

CLICK HERE TO RETURN TO TABLE OF CONTENTS

CONTRIBUTIONS

(in thousands)

	YEAR ENDED JUNE 30 2002	2001
CONTRIBUTIONS—PENSION PLAN		
EMPLOYER CONTRIBUTIONS:		
Employees	$ 22,376	$ 24,249
Teachers	12,609	12,278
Police Officers	8,066	6,772
Firefighters	3,522	2,784
TOTAL EMPLOYER CONTRIBUTIONS	**46,573**	**46,083**
STATE CONTRIBUTIONS ON BEHALF OF LOCAL EMPLOYERS:		
Employees	—	—
Teachers	6,810	7,016
Police Officers	2,464	1,963
Firefighters	1,711	1,277
TOTAL STATE CONTRIBUTIONS ON BEHALF OF LOCAL EMPLOYERS	**10,985**	**10,256**
PLAN MEMBER CONTRIBUTIONS:		
Employees	39,378	34,791
Teachers	38,860	36,189
Police Officers	17,761	16,417
Firefighters	7,212	6,602
TOTAL PLAN MEMBER CONTRIBUTIONS	**103,211**	**93,999**
POSTRETIREMENT MEDICAL PLAN CONTRIBUTIONS ON BEHALF OF EMPLOYERS:		
Employees	8,456	2,585
Teachers	9,862	9,758
Police Officers	5,108	4,074
Firefighters	2,532	1,900
TOTAL POSTRETIREMENT MEDICAL PLAN CONTRIBUTIONS ON BEHALF OF EMPLOYERS	**25,958**	**18,317**
TOTAL CONTRIBUTIONS—PENSION PLAN	**$186,727**	**$168,655**
CONTRIBUTIONS—POSTRETIREMENT MEDICAL PLAN		
EMPLOYER NORMAL:		
Employees	$ 8,456	$ 2,585
Teachers	6,457	6,250
Police Officers	3,876	3,092
Firefighters	1,677	1,262
TOTAL EMPLOYER NORMAL CONTRIBUTIONS	**20,466**	**13,189**
STATE CONTRIBUTIONS ON BEHALF OF LOCAL EMPLOYERS:		
Teachers	3,405	3,508
Police Officers	1,232	982
Firefighters	855	638
TOTAL STATE CONTRIBUTIONS ON BEHALF OF LOCAL EMPLOYERS	**5,492**	**5,128**
TOTAL CONTRIBUTIONS—POSTRETIREMENT MEDICAL PLAN	**$ 25,958**	**$ 18,317**
TOTAL CONTRIBUTIONS	**$212,685**	**$ 186,972**

CLICK HERE TO RETURN TO TABLE OF CONTENTS

NET APPRECIATION (DEPRECIATION) IN FAIR VALUE OF INVESTMENTS

(in thousands)

	YEAR ENDED JUNE 30 2002	2001
Equity Investments:		
Domestic	($341,823)	($347,207)
International	(27,739)	(116,054)
Fixed Income Investments:		
Domestic	21,552	37,944
Global	18,129	(10,190)
Commercial Real Estate	(17,814)	(8,407)
Timberfunds:		
Domestic	(6,683)	21
International	(9,536)	2,764
Alternative Investments:		
Vintage 1986–1990	(66)	(1,693)
Vintage 1991–1995	(8,821)	(26,264)
Vintage 1996–2000	(59,832)	(10,208)
Vintage 2001–2005	(10,965)	(1,837)
Temporary Investments	50	233
NET APPRECIATION (DEPRECIATION) IN FAIR VALUE OF INVESTMENTS	**($443,548)**	**($480,898)**

CLICK HERE TO RETURN TO TABLE OF CONTENTS

INTEREST INCOME	(in thousands)	
	YEAR ENDED JUNE 30	
	2002	2001
Fixed Income Investments:		
Domestic	$60,739	$61,691
Global	10,947	9,667
Temporary Investments	189	420
Cash	210	387
Other	62	15
TOTAL INTEREST INCOME	**$72,147**	**$72,180**

DIVIDEND INCOME	(in thousands)	
	YEAR ENDED JUNE 30	
	2002	2001
Equity Investments:		
Domestic	$25,767	$34,638
International	6,534	6,895
TOTAL DIVIDEND INCOME	**$32,301**	**$41,533**

TIMBERFUND AND ALTERNATIVE INVESTMENT INCOME (LOSS)	(in thousands)	
	YEAR ENDED JUNE 30	
	2002	2001
Timberfunds:		
Domestic	($ 254)	($353)
International	82	390
TOTAL TIMBERFUND INCOME (LOSS)	**($ 172)**	**$ 37**
Alternative Investments:		
Vintage 1986–1990	$ 43	$251
Vintage 1991–1995	427	143
Vintage 1996–2000	1,198	479
Vintage 2001–2005	(445)	(363)
TOTAL ALTERNATIVE INVESTMENT INCOME (LOSS)	**$1,223**	**$510**

CLICK HERE TO RETURN TO TABLE OF CONTENTS

COMMERCIAL REAL ESTATE INVESTMENTS OPERATING INCOME AND EXPENSES

(in thousands)

	OPERATING INCOME YEAR ENDED JUNE 30		OPERATING EXPENSES YEAR ENDED JUNE 30		NET OPERATING INCOME YEAR ENDED JUNE 30	
	2002	2001	2002	2001	2002	2001
Office Buildings	$37,213	$36,254	$19,933	$19,884	$17,280	$16,370
Multi-Family Apartment Buildings	23,346	19,823	13,414	11,448	9,932	8,375
Retail Property	9,379	9,128	4,967	4,930	4,412	4,198
Industrial/Research & Development Property	14,018	12,749	4,797	4,537	9,221	8,212
TOTAL	**$83,956**	**$77,954**	**$43,111**	**$40,799**	**$40,845**	**$37,155**

INVESTMENT ACTIVITY FEES AND OTHER INVESTMENT RELATED EXPENSES

(in thousands)

	YEAR ENDED JUNE 30 2002	2001
INVESTMENT ACTIVITY FEES:		
Equity Investments:		
Domestic	$ 8,387	$ 9,500
International	1,607	1,933
Fixed Income Investments:		
Domestic	2,018	1,918
Global	559	514
Timberfunds:		
Domestic	350	377
International	274	330
Alternative Investments:		
Vintage 1986–1990	250	292
Vintage 1991–1995	1,016	1,457
Vintage 1996–2000	4,739	5,380
Vintage 2001–2005	3,064	2,598
Commercial Real Estate	3,923	3,857
Custodial Fees	399	634
Investment Advisor Fees	413	461
TOTAL INVESTMENT ACTIVITY FEES	**26,999**	**29,251**
OTHER INVESTMENT RELATED EXPENSES:		
Securities Lending Borrower Rebates	8,916	24,856
Securities Lending Management Fees	590	687
Other Investment Related Fees	508	108
TOTAL INVESTMENT ACTIVITY FEES AND OTHER INVESTMENT RELATED EXPENSES	**$37,013**	**$54,902**

CLICK HERE TO RETURN TO TABLE OF CONTENTS

BENEFITS

(in thousands)	YEAR ENDED JUNE 30 2002	2001
PENSION BENEFITS AND ADDITIONAL ALLOWANCES:		
Employees	$ 78,372	$ 71,504
Teachers	81,171	71,337
Police Officers	41,445	37,227
Firefighters	23,424	20,048
TOTAL PENSION BENEFITS AND ADDITIONAL ALLOWANCES	**224,412**	**200,116**
POSTRETIREMENT HEALTH INSURANCE PREMIUM SUBSIDY:		
Employees	8,722	596
Teachers	7,235	5,536
Police Officers	5,142	4,462
Firefighters	2,910	2,476
TOTAL POSTRETIREMENT HEALTH INSURANCE PREMIUM SUBSIDY	**24,009**	**13,070**
TOTAL BENEFITS	**$248,421**	**$213,186**

REFUNDS OF CONTRIBUTIONS

(in thousands)	YEAR ENDED JUNE 30 2002	2001
Employees	$ 7,290	$ 9,398
Teachers	4,799	4,698
Police Officers	2,378	2,674
Firefighters	811	209
TOTAL REFUNDS OF CONTRIBUTIONS	**$15,278**	**$16,979**

CLICK HERE TO RETURN TO TABLE OF CONTENTS

ADMINISTRATIVE EXPENSES

(in thousands)

	2002 EXPENSE	2002 BUDGET*	OVER (UNDER) BUDGET	2001 EXPENSE	2001 BUDGET*	OVER (UNDER) BUDGET
Salaries and Wages	$1,768	$1,852	($ 84)	$1,611	$1,670	($ 59)
Fringe Benefits	772	717	55	705	567	138
Supplies, Utilities and Postage	316	488	(172)	270	348	(78)
Organizational Dues	5	6	(1)	4	5	(1)
Equipment	118	184	(66)	230	295	(65)
Travel	29	72	(43)	41	56	(15)
State Services	50	84	(34)	64	54	10
Office Rents and Expenses	201	226	(25)	232	249	(17)
Computer Support and System Development	1,177**	1,789	(612)	1,099	996	103
Consulting	301	314	(13)	149	316	(167)
Unemployment Compensation	—	1	(1)	—	2	(2)
Workers Compensation	37	37	—	—	1	(1)
TOTAL	$4,774	$5,770	($996)	**$4,405**	**$4,559**	**($154)**

* The New Hampshire biennial budget is composed of the initial operating budget and supplemented by additional appropriations. These appropriations are generated by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances. The budget therefore is a flexible budget. It is a biennial budget which consists of balances brought forward plus current year appropriations, less balances carried forward into the following fiscal year. The balances carried forward into the following fiscal year are comprised of encumbrances and non-lapsing appropriations.

** $0.8 million of the fiscal year 2002 expenditures for computer support and system development was capitalized as a fixed asset and is not reflected in the fiscal year 2002 expense.

PROFESSIONAL FEES

(in thousands)

	YEAR ENDED JUNE 30 2002	2001
Actuarial Fees	$280	$430
Audit Fees	105	98
Legal Fees	51	95
TOTAL PROFESSIONAL FEES	**$436**	**$623**

CLICK HERE TO RETURN TO TABLE OF CONTENTS

MEMBERSHIP COMPOSITION

	JUNE 30 2002#	2001
ACTIVE CONTRIBUTING MEMBERS:		
Employees	23,435	24,413
Teachers	17,186	17,718
Police Officers	4,101	4,125
Firefighters	1,465	1,433
TOTAL ACTIVE CONTRIBUTING MEMBERS	**46,187***	**47,689***
RETIRED MEMBERS:		
Employees	9,159	8,406
Teachers	4,851	4,518
Police Officers	1,696	1,586
Firefighters	964	906
TOTAL RETIRED MEMBERS	**16,670****	**15,416****

Estimated as there was no full actuarial valuation prepared as of June 30, 2002.

* Excludes inactives.

** Excludes vested deferred members.

PAYMENTS FROM THE STATE GENERAL FUND (in thousands)

	YEAR ENDED JUNE 30 2002	2001
State Share of Accrued Liability Contributions*	$ 514	$ 972
State Share of Normal Contributions for Local Employers	14,739	15,098
State Payments for Health Insurance for Retired State Members	27,929	17,464
TOTAL STATE GENERAL FUND PAYMENTS EXCLUSIVE OF NORMAL CONTRIBUTIONS FOR STATE MEMBERS	**$43,182**	**$33,534**

* At June 30, 2001, the System had accrued $5.1 million in accounts receivable due from the State of New Hampshire. The $5.1 million owed by the State of New Hampshire was paid in full by the State on August 14, 2001.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

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NVESTMENT
ECTION

Investment Consultant's Report

Evaluation Associates

200 Connecticut Avenue, Suite 700, Norwalk, Connecticut 06854-1958 (203) 855-2200
FAX: (203) 855-2301
http://www.eval-assoc.com

November 8, 2002

The New Hampshire Retirement System
Board of Trustees
4 Chenell Drive
Concord, NH 03301-8509

Ladies and Gentlemen:

The New Hampshire Retirement System (System) manages a pool of assets for both the Pension Plan and the Postretirement Medical Plan. As of June 30, 2002, the total net assets for the two plans were valued at approximately $3,936.5 million. This represents a decline of $403.8 million over the previous fiscal year. The decrease in net assets represents realized and unrealized losses on investments, investment income and contributions further reduced by deductions for benefit payments and investment expenses.

For the fiscal year ended June 30, 2002, there was $443.5 million net depreciation reported in the fair value of investments. The depreciation in investments, combined with investment income represented a –6.4% time-weighted return for the total fund for the fiscal year ended June 30, 2002.

The data presented in this report regarding investment results, asset allocations, brokerage commissions, investment management expenses and other investment related activity is based on data reported by the master custodian and the investment managers. Based on the due diligence procedures applied by us, we conclude that the data presented is accurate and reliable and meets the presentation standards of the Association of Investment Management and Research (AIMR).

The Board of Trustees (Board) pursues an investment strategy designed to meet the long term funding requirements for the System with an ultimate goal of maintaining a well-funded pension plan. To achieve this goal, the Board has designed its investment strategy to generate consistent high returns over the years with an appropriate low level of volatility.

The Board has managed the System's investments based on the "Prudent Investor Rule" as adopted by the New Hampshire Legislature. This rule ensures that the Board, as fiduciary, will "exercise judgment and care which persons of prudence, discretion and intelligence, acting in like capacity, would use in the conduct of a pension plan of like character and with like aims." The emphasis here is on diversification of investments to minimize risk.

To that end, the System has established a comprehensive statement of investment policy and guidelines complete with target asset allocations, policy ranges and a re-balancing strategy. This document serves as a procedural manual for the Board and investment managers to follow in pursuing the investment goals of the System. These guidelines serve as a means of communicating to the investment managers the Board's attitude towards risk and return as it relates to the management of the System's assets. In addition, an asset allocation study is authorized by the Board and conducted every five years; input is sought from our firm, the System's actuary, as well as the System's commercial real estate consultant before any changes are made. Such a study determines the mix of investments, by asset class, which has the highest probability of producing the real (inflation adjusted) return required to meet future funding requirements at the lowest level of risk. The last study was performed in 2001.

Our role, as investment consultants to the Board, is to guide the Board in establishing clear and concise investment guidelines and investment programs and to help the Board in the search for qualified investment managers to execute investment strategies and programs. In addition, we conduct investment performance analyses on a regular basis and perform reviews of managers' compliance with the investment guidelines. The periodic performance reports presented to the Board meet the AIMR standards and are designed to help the Board make informed investment decisions.

The System allows its managers to defensively hedge positions for non-dollar investments using currency forward contracts. It is our opinion that the hedging transactions entered into by the investment managers during this fiscal year were consistent with the System's guidelines and prudent investment management strategy. With respect to derivative securities, approximately 4.5% of the total investments were invested in mortgage-backed securities. Investments in mortgage-backed securities in the fixed income portfolios are permitted by the Board, because a large portion of securities in this sector of the fixed income market are traded in a derivative form. Futures are held by the System for duration management. The futures market is more liquid than the 30-year Treasury market, so these securities allow for easier management of interest rate exposure. Consistent with the Board's view, we are comfortable with this minimal level of exposure to derivative securities as these positions add to the overall diversification of the fixed income portfolio.

In an effort to manage overall trading costs for the System's investments, the Board has in place trading agreements with domestic equity managers to direct predetermined trades through identified discount brokerage firms. The trades are directed on a best execution basis and this results in commission recapture on trades discounted to approximately 2.5 to 3.0 cents per share. The Board is mindful that the handling of difficult trades by specialists may be required, especially for smaller to middle capitalization companies, for best execution. For this reason, the Board refrains from directing 100% of the trades through the discount brokers who are not able to provide the necessary trading expertise. The combination of both the trading strategies, in our view, is prudent and appropriate.

The Board of Trustees, as fiduciaries of the System, view their responsibility seriously for maintaining corporate governance to preserve shareholders' interest for the Systems' investments. The actual proxy voting responsibility is delegated to the individual managers. However, the System proactively reviews its previously established proxy voting guidelines for domestic equity. A well-known consulting firm in this field oversees and reports compliance with the proxy voting guidelines.

A set of guidelines for international equity is not practical as it varies from country to country and, given the size of the System's investments in international equity, the cost associated with establishing proxy voting guidelines for international equity would be inefficient. However, the international managers are expected to follow domestic equity proxy voting guidelines wherever appropriate.

As we mentioned earlier, the Board of Trustees have been managing the investments of the System according to the "Prudent Investor Rule" which, over the years, has generated consistent returns at the lowest level of risk. The "Prudent Investor Rule" is granted to the Board by the New Hampshire State Legislature, consistent with modern portfolio theory, which the majority of other public pension plans currently follow.

Sincerely,

Anthony V. Minopoli

Anthony V. Minopoli
Vice President
Evaluation Associates

CLICK HERE TO RETURN TO TABLE OF CONTENTS

ANNUALIZED INVESTMENT RETURNS—ACTUAL VERSUS INDICES

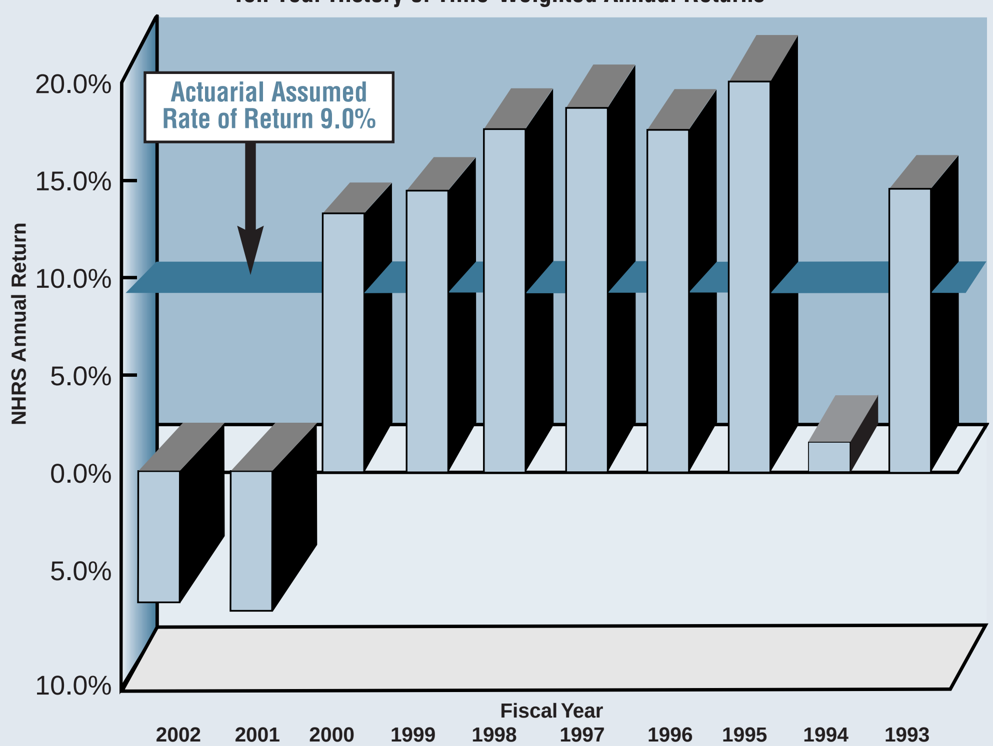
	Current Year 2002	Annualized 3 Year	Annualized 5 Year
Total NHRS Fund	–6.4 %	–0.9 %	5.6 %
Consumer Price Index	0.8	2.6	2.3
Custom Index*	–9.1	–2.8	3.9
Total Equity Segment	–13.8	–5.8	3.5
S&P 500 Index	–18.0	–9.2	3.7
MSCI EAFE Index	–9.5	–6.8	–1.5
Total Fixed Income Segment	10.3	7.8	7.3
Lehman Brothers Universal Bond Index	7.7	7.7	7.2
J.P. Morgan Govt Bond Index	13.7	4.4	4.5
Commercial Real Estate Segment	5.5	8.5	11.3
NCREIF Property Index	5.5	9.5	11.7
Consumer Price Index	0.8	2.6	2.3
Cash Equivalents Segment	2.7	4.7	4.8
ML 91 Day T-Bill Index	2.7	4.7	4.8
Alternative Investments Segment**	–30.0	–3.3	9.7
Timberfunds Segment**	–14.7	–2.0	0.1

The returns are calculated using a time-weighted rate of return in accordance with AIMR's Performance Presentation Standards.

* The custom index is a blended index which is formulated from major market indices in proportion to the System's asset diversification in equity and fixed income securities.

** There is not a generally accepted market index for alternative investments or timberfunds.

Ten Year History of Time-Weighted Annual Returns



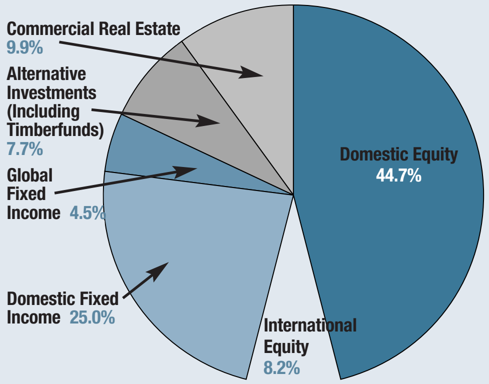
CLICK HERE TO RETURN TO TABLE OF CONTENTS

ACTUAL ASSET ALLOCATION VERSUS TARGET ASSET ALLOCATION

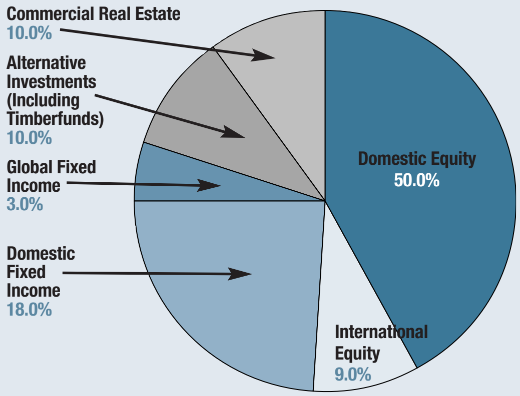
	As of June 30, 2002		
	Actual %	*Target %	*Target Range %
Domestic Equity	44.7 %	50.0 %	40–60
International Equity	8.2	9.0	5–15
Domestic Fixed Income	25.0	18.0	15–25
Global Fixed Income	4.5	3.0	0– 5
Alternative Investments (Including Timberfunds)	7.7	10.0	5–15
Commercial Real Estate	9.9	10.0	0–10
TOTAL FUND	100.0 %	**100.0 %**	

* Targets and Ranges as stated in The System's Investment Policy and Guidelines.

Actual Asset Allocation as of June 30, 2002



Target Asset Allocation as of June 30, 2002



CLICK HERE TO RETURN TO TABLE OF CONTENTS

TEN LARGEST STOCK HOLDINGS BY FAIR VALUE*

(in thousands)

Shares	Stock	June 30, 2002 Fair Value
947,061	Citigroup Inc.	$36,699
596,096	Exxon Mobil Corp.	24,392
443,300	Microsoft Corp.	24,249
286,600	Federal National Mortgage Association	21,137
328,650	Wal-Mart Stores, Inc.	18,079
521,900	Dow Chemical	17,943
186,000	Chevron-Texaco Corp.	16,461
225,550	International Business Machines Corp.	16,240
445,492	Pfizer Inc.	15,592
304,650	Wells Fargo & Co.	15,251

TEN LARGEST FIXED INCOME HOLDINGS BY FAIR VALUE*

(in thousands)

Par	Security	June 30, 2002 Fair Value
30,500,000	FNMA TBA, 6.50%, Due 08/01/2030, Rated AAA	$30,948
17,100,000**	Republic of Italy, 6.00%, Due 01/05/2031, Rated AA	18,202
15,715,000	U.S. Treasury Notes, 7.875%, Due 11/15/2004, Rated AAA	17,417
15,365,000**	Republic of Italy, 5.50%, Due 01/11/2010, Rated AA	15,643
14,900,000**	Federal Republic of Germany, 5.25%, Due 04/07/2010, Rated Aaa	15,060
13,250,000	FNMA Pool, 7.00%, Due 07/01/2030, Rated AAA	13,714
12,550,000	U.S. Treasury Notes, 5.875%, Due 11/15/2004, Rated AAA	13,340
10,310,000	Ford Motor Company, 7.375%, Due 10/28/2009, Rated BBB+	10,554
9,415,000	Fidelity Investments Debentures, 7.57%, Due 06/15/2029, Rated AA	10,231
93,850,000**	Kingdom of Sweden, 5.00%, Due 01/28/2009, Rated AAA	10,045

* A complete listing of portfolio holdings is available for review at the System's office.

** Par value is denoted in local currency.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

SCHEDULE OF INVESTMENT MANAGEMENT AND SERVICE FEES

	YEAR ENDED JUNE 30, 2002 Assets Under Management (in thousands)	Fees (in thousands)	Basis Points
INVESTMENT MANAGEMENT FEES			
Equity Investments:			
Domestic	$1,745,823	$ 8,387	48
International	320,747	1,607	50
Fixed Income Investments:			
Domestic	901,493	2,018	22
Global	176,936	559	32
Timberfunds:			
Domestic	28,777	350	122
International	66,305	274	41
Alternative Investments*:			
Vintage 1986–1990	2,007	250	83
Vintage 1991–1995	32,512	1,016	117
Vintage 1996–2000	140,558	4,739	189
Vintage 2001–2005	32,573	3,064	217
Commercial Real Estate	387,127	3,923	101
Temporary Investments	75,803	—	—
TOTAL INVESTMENT MANAGEMENT FEES	**$3,910,661**	**$26,187**	**67**
INVESTMENT SERVICE FEES			
Custodial Fees	$3,144,999	399	1
Investment Advisor Fees	3,910,661	413	1
Security Lending Management Fees	382,339	590	15
Other Investment Related Fees	—	508	—
TOTAL INVESTMENT MANAGEMENT AND SERVICE FEES	**$3,910,661**	**$28,097**	**72**

* Basis point calculation is based on committed capital in accordance with investment management contracts.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

SCHEDULE OF BROKERAGE COMMISSIONS PAID

	YEAR ENDED JUNE 30, 2002		
Brokerage Firm	Number of Shares Traded (in thousands)	Total Commissions (in thousands)	Commissions Per Share
Goldman Sachs and Company	16,996	$2,066	$0.12
Deutsche Bank AG	3,534	792	0.22
Broadcourt Capital Corporation	13,777	711	0.05
Lehman Brothers Incorporated	2,931	439	0.15
Morgan Stanley and Company	4,561	425	0.09
Lynch, Jones & Ryan*	8,411	387	0.05
Fred M. Alger Asset Management Company	16,784	343	0.02
Abel Noser Corporation*	13,131	292	0.02
Smith Barney, Incorporated	3,876	200	0.05
Merril Lynch, Pierce, Fenner and Smith, Inc.	4,520	195	0.04
Bear Stearns Security Corporation	2,571	130	0.05
Union Bank of Switzerland	3,452	129	0.04
Bridge Trading Company	2,513	127	0.05
Bank of New York	4,918	110	0.02
Bank of New York ESI Securities Company*	2,000	102	0.05
Fidelity Capital Markets	1,627	90	0.06
U.S. Clearing Institutional Trading	1,444	73	0.05
Credit Suisse First Boston Corporation	2,481	72	0.03
Bernstein, Sanford and Company	1,382	68	0.05
Jefferies and Company	2,226	65	0.03
All Others (189 not listed separately)	58,554	780	0.01
TOTAL BROKERAGE COMMISSIONS PAID	**171,689**	**$7,596**	**$0.04**

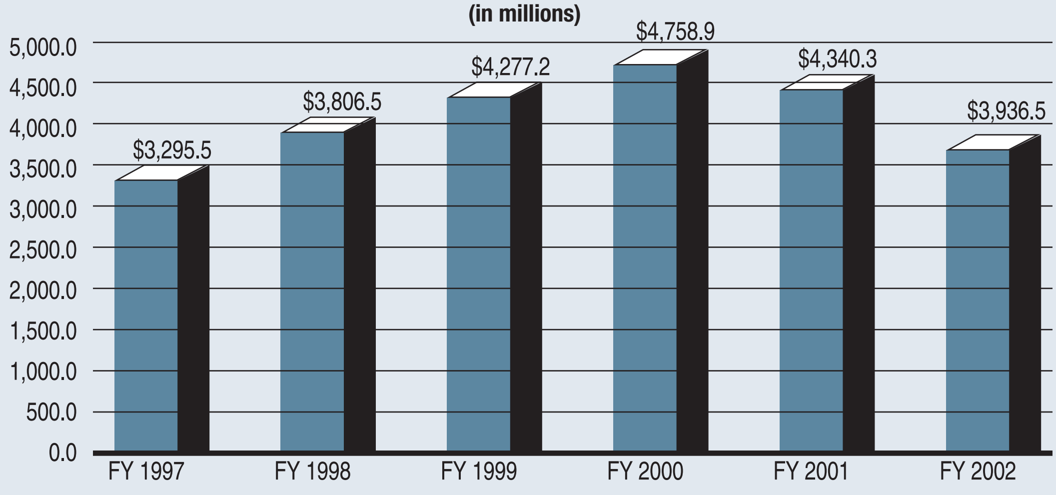
* The System participates in a brokerage commission recapture program with these firms.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

SUMMARY OF INVESTMENTS

TYPE OF INVESTMENT	June 30, 2002 Fair Value (in millions)	Percent of Total Fair Value
FIXED INCOME		
BONDS		
Government and Agency Bonds	$ 515.7	13.2 %
Corporate Bonds	332.4	8.5
Asset Backed Bonds	58.5	1.5
Collateralized Mortgage Bond Obligations	82.3	2.1
Convertible Corporate Bonds	13.5	0.4
TOTAL BONDS	1,002.4	25.7
Preferred Stock	4.8	0.1
TOTAL FIXED INCOME	**1,007.2**	**25.8**
EQUITY		
COMMON STOCKS		
Consumer Discretionary	356.8	9.1
Consumer Staples	148.6	3.8
Energy	142.9	3.7
Financial Services	416.6	10.7
Health Care	267.2	6.8
Industrials	197.9	5.1
Information Technology	233.6	6.0
Materials	110.6	2.8
Telecommunication Services	40.7	1.0
Utilities	51.9	1.3
Other	1.6	—
TOTAL EQUITY	**1,968.4**	**50.3**
OTHER INVESTMENTS		
Alternative Investments	207.7	5.3
Commercial Real Estate	387.1	9.9
Timberfunds	95.1	2.4
Pooled Short Term Investment Funds	243.2	6.2
Foreign Currency Held as Call Deposits	2.0	0.1
TOTAL INVESTMENTS	**$3,910.7**	**100.0 %**

Net Assets Held In Trust For Benefits
(in millions)



CLICK HERE TO RETURN TO TABLE OF CONTENTS

CTUARIAL
ECTION

Actuarial Certification

BUCK CONSULTANTS
500 Plaza Drive
Secaucus, New Jersey 07096-1533

November 8, 2002

The Board of Trustees
New Hampshire Retirement System
4 Chenell Drive
Concord, New Hampshire 03301-8509

Ladies and Gentlemen:

Actuarial valuations of the NHRS are performed biennially to measure the ongoing costs of the System, the funded status of the System and the progress towards the funding goals over time. To determine funding requirements the valuation data is projected forward to the ensuing biennium.

In general, the financial goals of the NHRS, as stipulated by the Board of Trustees, are a pattern of contributions which is relatively stable over time as a percentage of pay and progresses towards a funded ratio (measured as the fair value of assets to the liability determined based on compensation and service as of the measurement date) of 115% with valuations performed on and after June 30, 2001. We believe that the contribution levels determined in the valuation satisfy these objectives.

The June 30, 1997 valuation determined the contributions of the System for the fiscal years ended June 30, 2000 and June 30, 2001. The contributions for the fiscal years ending June 30, 2002 and June 30, 2003 were determined based on the June 30, 1999 valuation of the System.

We have completed the June 30, 2001 actuarial valuation of the NHRS which will be used to determine the funding contributions for the System for the fiscal years ending June 30, 2004 and June 30, 2005.

The June 30, 2001 valuation reflects the following financially significant changes in the benefit structure:

- Employees, Teachers, Police Officers, and Firefighters retired prior to July 1, 2000 received a 3.5% COLA effective July 1, 2001.
- Employees, Teachers, Police Officers, and Firefighters retired prior to July 1, 1999 received a 4.5% COLA effective July 1, 2000.

As stipulated under the Statutes, the demographic and financial actuarial assumptions are selected by the Board of Trustees based on the recommendations of the actuary and the investment consultant. The developing experience is monitored biennially with each valuation, and a formal review is completed at least once in each five-year period. The contributions for fiscal year 2001, which have been determined in the June 30, 1997 valuation of the System, are based on the open group aggregate funding method, a 9% interest assumption and graded salary scales which average 6% annually. In addition, the Board has recommended that the minimum normal contribution rate not be less than the rates using target funding with a funding goal of 130% over a 20 year horizon and an 8% interest rate and that the minimum contribution rate for fiscal years beginning

The Board of Trustees
November 8, 2002
Page 2

on or after July 1, 2003 not be less than the rate using target funding goal of 115% over a 20 year horizon and an 8% interest rate. As a result, the contribution levels are sufficient to attain the Board of Trustee's minimum funding goal of 130% over 20 years with a 50% probability.

The disclosure information as of June 30, 2002 and June 30, 2001 is based on the demographic data used in the June 30, 2001 valuation and on the interest assumption of 9% which was used in the June 30, 1999 valuation for funding and disclosure purposes.

The initial asset value for valuation purposes is determined using a five-year moving average asset valuation method. The initial value is then compared with book value and fair value of assets and the middle value is used to compute the rates. However, the actuarial value of assets cannot be lower than the five-year average value. The underlying demographic data is maintained and provided by the NHRS office. The data is analyzed by Buck for internal completeness and consistency and compared with the prior valuation data to again ensure consistency.

Buck prepared the normal contribution rates and actual contribution rates as a percent of current payroll tables, the analysis of changes in actuarial assumptions, pension benefit provisions, the schedule of contributions from employers, and the membership composition table shown in the financial section. Buck prepared all the schedules shown in the actuarial section.

In our opinion, the attached schedules of valuation results prepared by the actuary fairly represent the status of the NHRS and present an accurate view of historical data. The underlying assumptions and methods used for funding purposes are consistent with the statutory specifications, meet the parameters of the disclosures presented in the GASB Statement No. 25, and represent a best estimate of the aggregate future experience of the System.

Respectfully submitted,

Buck Consultants, Inc.

Lisa A. Witlen

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CLICK HERE TO RETURN TO TABLE OF CONTENTS

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PLAN FUNDING STATUS AND PROGRESS

The New Hampshire Retirement System (System) determines the annual required contribution using the open group aggregate funding method. For fiscal years prior to July 1, 2003, the normal rates can not be less than the normal rates required to maintain a funded ratio of 130% over a 20 year horizon and an 8% interest rate. However, for fiscal years beginning on and after July 1, 2003, the normal rates cannot be less than the normal rates required to maintain a funded ratio of 115% over a 20 year horizon and an 8% interest rate. This method does not identify or separately amortize unfunded actuarial liabilities.

The Board of Trustees and the actuary monitor the funding progress by reviewing the funded ratios of the System each June 30th. The funded ratio is determined by dividing the net assets held in trust for benefits by the liabilities of the System. The funded ratio information as of June 30, 2002 and June 30, 2001 is on the following pages.

The liabilities used in the funded ratio have been determined on two bases: the projected unit credit actuarial cost basis and the unit credit actuarial cost basis. The liability determined using the projected unit credit actuarial cost basis is the present value of estimated pension benefits that will be paid in future years as a result of member services performed to date and is adjusted for the effects of projected salary increases. The liability determined using the unit credit actuarial cost basis is based on services performed to date and the compensation earned to date.

The information presented as of June 30, 2002 and June 30, 2001 is based on the June 30, 2001 actuarial valuation of the System projected to June 30, 2002. The information presented as of June 30, 2001 is based on the June 30, 2001 actuarial valuation of the System.

The funded ratio information is for disclosure purposes and is independent of the actuarial computation made to determine contributions to the System. The actuarial funding method used to determine contributions to the System is explained in Note 6 in the Financial Section.

Several significant actuarial assumptions are used to determine the standardized measure of projected liability and these assumptions are summarized below:

- The present value of future pension payments was computed by using a discount rate of 9.0% for 2002 and 2001. The discount rate is equal to the estimated long-term rate of return on current and future investments of the System.
- Future pension payments at June 30, 2002 and 2001 reflect an average annual salary increase among the four classifications of 6.0%. (Each classification uses its own salary increase assumption.) This includes a 3.5% inflation and 2.5% merit/promotion component for both fiscal years.
- Future pension payments reflect no postretirement benefit increases, which is consistent with the terms of the pension statute.
- The liabilities as of June 30, 2002 and June 30, 2001 reflect the revised demographic assumptions that were adopted by the Board of Trustees as of June 30, 2001.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

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Plan Funding—Pension and Postretirement Medical Plans

PLAN PENSION FUNDING

PROJECTED LIABILITY BY MEMBER GROUP EXCLUDING POSTRETIREMENT MEDICAL INSURANCE SUBSIDY AT JUNE 30, 2002 AND JUNE 30, 2001 (in thousands)

	ALL GROUPS 2002	ALL GROUPS 2001	EMPLOYEES 2002
A. Projected Liability			
1. Retirees & Beneficiaries Currently Receiving Benefits & Terminated Employees Not Yet Entitled	$1,884,593	$1,696,253	$628,024
2. Current Employees			
a. Accumulated Employee Contributions With Interest	1,575,703	1,481,974	553,104
b. Employer Financed Vested	279,414	233,122	44,421
c. Employer Financed Nonvested	456,604	431,253	152,590
3. Total Pension Liabilities	**$4,196,314**	**$3,842,602**	**$1,378,139**
% of Total Pension Liabilities	**100.00%**	**100.00%**	**32.84%**
FUNDING STATUS AT FAIR VALUE OF ASSETS			
B. Net Assets			
Fair Value of Assets (excludes Administrative Assessment Account)	$3,936,475	$4,334,742	$1,179,595
Less: Undesignated Special Account	398,317**	609,845*	120,995**
Less: Account for Medical Insurance Subsidy	437,478	336,078	107,898
Net Fair Value of Assets Held in Trust for Benefits	**$3,100,680**	**$3,388,819**	**$ 950,702**
% of Net Fair Value of Assets Held in Trust for Benefits	**100.00%**	**100.00%**	**30.66%**
C. Unfunded (Assets in Excess of) Pension Liability	**$1,095,634**	**$ 453,783**	**$ 427,437**
Percent Funded	**73.89%**	**88.19%**	**68.98%**
Payroll	$1,700,164	$1,615,871	$ 717,046
Unfunded (Excess)/Payroll	64.44%	28.08%	59.61%
FUNDING STATUS AT ACTUARIAL VALUE OF ASSETS			
D. Net Assets			
Actuarial Value (excludes Administrative Assessment Account)	$3,841,712	$3,874,746	$1,179,697
Less: Special Account	398,317**	609,845*	120,995**
Net Assets Held in Trust for Benefits	**$3,443,395**	**$3,264,901**	**$1,058,702**
E. Unfunded (Assets in Excess of) Pension Liability	**$ 752,919**	**$ 577,701**	**$ 319,437**
Percent Funded	**82.06%**	**84.97%**	**76.82%**
Payroll	$1,700,164	$1,615,871	$ 717,046
Unfunded (Excess)/Payroll	44.29%	35.75%	44.55%

FUNDING STATUS BASED ON NHRS BOARD OF TRUSTEES OBJECTIVES BY MEMBER GROUP AT JUNE 30, 2002 AND JUNE 30, 2001 (in thousands)

	ALL GROUPS 2002	ALL GROUPS 2001	EMPLOYEES 2002
Vested Benefits			
Participants Currently Receiving Benefits	$1,862,864	$1,675,941	$ 617,708
Other Participants	1,876,846	1,735,410	607,840
Total Vested Benefits	$3,739,710	$3,411,351	$1,225,548
Nonvested Benefits	38,096	34,105	10,279
Total Pension Liabilities	**$3,777,806**	**$3,445,456**	**$1,235,827**
% of Total Pension Liabilities	**100.00%**	**100.00%**	**32.71%**
Fair Value of Assets (excludes Administrative Assessment Account)	$3,936,475	$4,334,742	$1,179,595
Less: Undesignated Special Account	398,317**	609,845*	120,995**
Less: Account for Medical Insurance Subsidy	437,478	336,078	107,898
Net Fair Value of Assets Held in Trust for Benefits	**$3,100,680**	**$3,388,819**	**$ 950,702**
% of Net Fair Value of Assets Held in Trust for Benefits	**100.00%**	**100.00%**	**30.66%**
Funding Ratio for Pension Liability	**82.08%**	**98.36%**	**76.93%**
Actuarial Present Value of Postretirement Medical Liabilities			
Active	$ 231,313	$ 157,706	$ 27,640
Retire	345,457	272,067	106,346
Total Actuarial Present Value of Postretirement Medical Liabilities	$ 576,770	$ 429,773	$ 133,986
Total Actuarial Present Value of Accrued Benefits	$4,354,576	$3,875,229	$1,369,813
Fair Value of Assets Held in Trust for Benefits	$3,538,158	$3,724,897	$1,058,600
Overall Funded Ratio	**81.25%**	**96.12%**	**77.28%**

NOTE: Liabilities for 2002 and 2001 based on 9% interest.

*Reflects legislation effective on or before June 30, 2001.

**Reflects legislation effective on or before June 30, 2002.

EMPLOYEES 2001	TEACHERS 2002	TEACHERS 2001	POLICE OFFICERS 2002	POLICE OFFICERS 2001	FIREFIGHTERS 2002	FIREFIGHTERS 2001
$ 571,339	$ 660,990	$ 588,286	$388,649	$352,562	$206,930	$184,066
505,941	681,141	656,208	226,996	210,063	114,462	109,762
48,633	164,853	123,988	39,732	36,059	30,408	24,442
134,661	127,295	130,854	114,932	106,614	61,787	59,124
$1,260,574	**$1,634,279**	**$1,499,336**	**$770,309**	**$705,298**	**$413,587**	**$377,394**
32.81%	**38.94%**	**39.02%**	**18.36%**	**18.35%**	**9.86%**	**9.82%**
$1,299,967	$1,563,936	$1,716,573	$792,175	$872,427	$400,769	$445,775
232,222*	152,286**	202,356*	64,386**	98,687*	60,650**	76,580*
33,878	113,509	95,320	139,430	129,973	76,641	76,907
$1,033,867	**$1,298,141**	**$1,418,897**	**$588,359**	**$643,767**	**$263,478**	**$292,288**
30.51%	**41.86%**	**41.87%**	**18.98%**	**19.00%**	**8.50%**	**8.62%**
$ 226,707	**$ 336,138**	**$ 80,439**	**$181,950**	**$ 61,531**	**$150,109**	**$ 85,106**
82.02%	**79.43%**	**94.64%**	**76.38%**	**91.28%**	**63.71%**	**77.45%**
$ 676,536	$ 731,326	$ 700,361	$181,108	$171,489	$ 70,684	$ 67,485
33.51%	45.96%	11.49%	100.46%	35.88%	212.37%	126.11%
$1,229,761	$1,579,343	$1,558,113	$712,382	$715,057	$370,290	$371,815
232,222**	152,286	202,356**	64,386	98,687**	60,650	76,580**
$ 997,539	**$1,427,057**	**$1,355,757**	**$647,996**	**$616,370**	**$309,640**	**$295,235**
$ 263,035	**$ 207,222**	**$ 143,579**	**$122,313**	**$ 88,928**	**$103,947**	**$ 82,159**
79.13%	**87.32%**	**90.42%**	**84.12%**	**87.39%**	**74.87%**	**78.23%**
$ 676,536	$ 731,326	$ 700,361	$181,108	$171,489	$ 70,684	$ 67,485
38.88%	28.34%	20.50%	67.54%	51.86%	147.06%	121.74%
$ 561,718	$ 650,033	$ 578,020	$388,254	$352,193	$206,869	$184,010
564,196	856,951	790,462	267,124	246,491	144,931	134,261
$1,125,914	$1,506,984	$1,368,482	$655,378	$598,684	$351,800	$318,271
9,523	4,306	3,583	16,415	14,629	7,096	6,370
$1,135,437	**$1,511,290**	**$1,372,065**	**$671,793**	**$613,313**	**$358,896**	**$324,641**
32.96%	**40.01%**	**39.82%**	**17.78%**	**17.80%**	**9.50%**	**9.42%**
$1,299,967	$1,563,936	$1,716,573	$792,175	$872,427	$400,769	$445,775
232,222*	152,286**	202,356*	64,386**	98,687*	60,650**	76,580*
33,878	113,509	95,320	139,430	129,973	76,641	76,907
$1,033,867	**$1,298,141**	**$1,418,897**	**$588,359**	**$643,767**	**$263,478**	**$292,288**
30.51%	**41.87%**	**41.87%**	**18.97%**	**19.00%**	**8.50%**	**8.62%**
91.05%	**85.90%**	**103.41%**	**87.58%**	**104.97%**	**73.41%**	**90.03%**
$ 7,128	$ 71,002	$ 30,406	$ 86,481	$ 78,171	$ 46,190	$ 42,001
37,144	130,132	127,929	70,258	68,970	38,721	38,024
$ 44,272	$ 201,134	$ 158,335	$156,739	$147,141	$ 84,911	$ 80,025
$1,179,709	$1,712,424	$1,530,400	$828,532	$760,454	$443,807	$404,666
$1,067,745	$1.411,650	$1,514,217	$727,789	$773,740	$340,119	$369,195
90.51%	**82.44%**	**98.94%**	**87.84%**	**101.75%**	**76.64%**	**91.23%**

CLICK HERE TO RETURN TO TABLE OF CONTENTS

ACCRUED LIABILITY FOR POSTRETIREMENT MEDICAL INSURANCE SUBSIDY—9% INTEREST, 8% MEDICAL TREND

(in thousands)

	Total 2002	Total 2001	Employees 2002	Employees 2001	Teachers 2002	Teachers 2001	Police Officers 2002	Police Officers 2001	Firefighters 2002	Firefighters 2001
Postretirement Medical Liability										
Actives	$231,313	$157,706	$ 27,640	$ 7,128	$ 71,002	$ 30,406	$ 86,481	$ 78,171	$46,190	$42,001
Retireds	345,457	272,067	106,346	37,144	130,132	127,929	70,258	68,970	38,721	38,024
Total Postretirement Medical Liability	**$576,770**	**$429,773**	**$133,986**	**$44,272**	**$201,134**	**$158,335**	**$156,739**	**$147,141**	**$84,911**	**$80,025**
Fair Value of Assets										
401(h) Subtrust	$ 68,548	$ 72,083	$ 1,527	$ 1,951	$ 7,811	$ 5,708	$ 35,777	$ 38,705	$23,433	$25,719
Medical Special Account	368,930	263,995	106,371	31,927	105,698	89,612	103,653	91,269	53,208	51,187
Fair Value of Assets Held in Trust for Benefits for Postretirement Medical Premiums	$437,478	$336,078	$107,898	$33,878	$113,509	$95,320	$139,430	$129,974	$76,641	$76,906
Funded Ratio	**75.85%**	**78.20%**	**80.53%**	**76.52%**	**56.43%**	**60.20%**	**88.96%**	**88.33%**	**90.26%**	**96.10%**

FUNDING PROGRESS BASED ON NHRS BOARD OF TRUSTEES OBJECTIVES

TOTAL OF ALL GROUPS

(dollars in thousands)

Valuation Date	6/30/01	6/30/99	6/30/97	6/30/95	6/30/93	6/30/91
Actuarial Present Value of Accrued Benefits:						
Vested Benefits:						
Participants Currently Receiving Payments	$1,675,941	$1,464,941	$ 1,172,285	$ 933,696	$ 684,862	$ 592,702
Other Participants	$1,735,410	$1,421,842	$ 1,201,724	$ 942,436	$ 745,789	$ 644,450
Total Vested	$3,411,351	$2,886,783	$ 2,374,009	$1,876,132	$1,430,651	$1,237,152
Nonvested Benefits	$ 34,105	$ 29,276	$ 29,054	$ 42,869	$ 26,627	$ 23,521
Total Pension Liabilities†	**$3,445,456**	**$2,916,059**	**$ 2,403,063**	**$1,919,001**	**$1,457,278**	**$1,260,673**
Fair Value of Assets for Pension Liabilities*	$3,388,819	$3,552,061	$2,941,505	$2,303,656	$1,886,365	$1,460,196 #
Funded Ratio for Pension Liabilities	98.4%	121.8%	122.4%	120.0%	129.4%	115.8%
Actuarial Present Value of Post Retirement Medical Liabilities						
Active	$ 157,706	$ 115,110	$ 66,565	$ 51,155	$ 41,808	$ 46,444
Retired	$ 272,067	$ 146,510	$ 56,781	$ 45,597	$ 34,794	$ 34,475
Total	$ 429,773	$ 261,620	$ 123,346	$ 96,752	$ 76,602	$ 80,919
Total Actuarial Present Value of Accrued Benefits†	**$3,875,229**	**$3,177,679**	**$ 2,526,409**	**$2,015,753**	**$1,533,880**	**$1,341,592**
Fair Value of Assets Held in Trust for Benefits*	**$3,724,897**	**$3,842,282**	**$ 3,060,837**	**$2,397,098**	**$1,967,511**	**$1,528,261#**
Overall Funded Ratio	**96.1%**	**120.9%**	**121.2%**	**118.9%**	**128.3%**	**113.9%**

* Excludes the Special Account but includes the Special Reserve.

\# Reflects the asset transfer as of July 1, 1991 to the non-governmental members.

† 6/30/93 and later liabilities based on a 9% interest assumption. All prior years based on an 8% interest assumption.

NOTE: Accrued Liability is defined as the actuarial present value of benefits based on service and salary as of the valuation date.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

FUNDING PROGRESS BASED ON NHRS BOARD OF TRUSTEES OBJECTIVES

EMPLOYEES

(dollars in thousands)

Valuation Date	6/30/01	6/30/99	6/30/97	6/30/95	6/30/93	6/30/91
Actuarial Present Value of Accrued Benefits:						
Vested Benefits:						
Participants Currently Receiving Payments	$ 561,718	$ 501,219	$ 418,829	$ 348,292	$ 271,847	$ 243,772
Other Participants	$ 564,196	$ 467,386	$ 391,813	$ 312,642	$ 243,102	$ 210,441
Total Vested	$1,125,914	$ 968,605	$ 810,642	$ 660,934	$ 514,949	$ 454,213
Nonvested Benefits	$ 9,523	$ 4,623	$ 5,617	$ 7,363	$ 13,222	$ 769
Total Pension Liabilities†	**$1,135,437**	**$ 973,228**	**$816,259**	**$668,297**	**$528,171**	**$454,982**
Fair Value of Assets for Pension Liabilities*	**$1,033,867**	**$1,100,451**	**$ 914,804**	**$ 731,764**	**$ 606,785**	**$474,995#**
Funded Ratio for Pension Liabilities	**91.0%**	**113.1%**	**112.1%**	**109.5%**	**114.9%**	**104.4%**
Actuarial Present Value of Post Retirement Medical Liabilities						
Active	$ 7,128	—	—	—	—	—
Retired	$ 37,144	—	—	—	—	—
Total	$ 44,272	—	—	—	—	—
Total Actuarial Present Value of Accrued Benefits†	**$1,179,709**	**$ 973,228**	**$816,259**	**$668,297**	**$528,171**	**$454,982**
Fair Value of Assets Held in Trust for Benefits*	**$1,067,745**	**$1,100,451**	**$ 914,804**	**$ 731,764**	**$ 606,785**	**$474,995#**
Overall Funded Ratio	**90.5%**	**113.1%**	**112.1%**	**109.5%**	**114.9%**	**104.4%**

TEACHERS

(dollars in thousands)

Valuation Date	6/30/01	6/30/99	6/30/97	6/30/95	6/30/93	6/30/91
Actuarial Present Value of Accrued Benefits:						
Vested Benefits:						
Participants Currently Receiving Payments	$ 578,020	$ 528,764	$ 417,390	$ 316,379	$ 211,850	$ 161,889
Other Participants	$ 790,462	$ 632,295	$530,948	$407,642	$321,365	$265,253
Total Vested	$1,368,482	$1,161,059	$ 948,338	$ 724,021	$ 533,215	$ 427,142
Nonvested Benefits	$ 3,583	$ 1,202	$ 2,156	$ 11,976	$ 5,069	$ 1,895
Total Pension Liabilities†	**$1,372,065**	**$1,162,261**	**$950,494**	**$735,997**	**$538,284**	**$429,037**
Fair Value of Assets for Pension Liabilities*	**$1,418,897**	**$1,468,773**	**$1,196,062**	**$ 910,976**	**$ 738,395**	**$563,856#**
Funded Ratio for Pension Liabilities	**103.4%**	**126.4%**	**125.8%**	**123.8%**	**137.2%**	**131.4%**
Actuarial Present Value of Post Retirement Medical Liabilities						
Active	$ 30,406	$ 20,567	—	—	—	—
Retired	$ 127,929	$ 68,553	—	—	—	—
Total	$ 158,335	$ 89,120	—	—	—	—
Total Actuarial Present Value of Accrued Benefits†	**$1,530,400**	**$1,251,381**	**$950,494**	**$735,997**	**$538,284**	**$429,037**
Fair Value of Assets Held in Trust for Benefits*	**$1,514,217**	**$1,557,873**	**$1,196,062**	**$ 910,976**	**$ 738,395**	**$563,856#**
Overall Funded Ratio	**98.9%**	**124.5%**	**125.8%**	**123.8%**	**137.2%**	**131.4%**

* Excludes the Special Account but includes the Special Reserve.

\# Reflects the asset transfer as of July 1, 1991 to the non-governmental members.

† 6/30/93 and later liabilities based on a 9% interest assumption. All prior years based on an 8% interest assumption.

NOTE: Accumulated benefit obligation is defined as the actuarial present value of benefits based on service and salary as of the valuation date.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

FUNDING PROGRESS BASED ON NHRS BOARD OF TRUSTEES OBJECTIVES

POLICE OFFICERS

(dollars in thousands)

Valuation Date	6/30/01	6/30/99	6/30/97	6/30/95	6/30/93	6/30/91
Actuarial Present Value of Accrued Benefits:						
Vested Benefits:						
Participants Currently Receiving Payments	$ 352,193	$ 291,465	$ 223,626	$ 179,281	$ 125,635	$ 114,126
Other Participants	$ 246,491	$ 208,066	$ 182,046	$ 139,379	$ 115,721	$ 107,864
Total Vested	$ 598,684	$ 499,531	$ 405,672	$ 318,660	$ 241,356	$ 221,990
Nonvested Benefits	$ 14,629	$ 15,542	$ 14,042	$ 14,074	$ 5,559	$ 12,892
Total Pension Liabilities†	**$ 613,313**	**$ 515,073**	**$ 419,714**	**$ 332,734**	**$ 246,915**	**$ 234,882**
Fair Value of Assets for Pension Liabilities*	**$ 643,767**	**$ 671,770**	**$ 564,654**	**$ 443,080**	**$ 363,770**	**$ 282,286**
Funded Ratio for Pension Liabilities	**105.0%**	**130.4%**	**134.5%**	**133.2%**	**147.3%**	**120.2%**
Actuarial Present Value of Post Retirement Medical Liabilities						
Active	$ 78,171	$ 61,590	$ 42,075	$ 29,302	$ 24,461	$ 28,820
Retired	$ 68,970	$ 51,930	$ 37,015	$ 29,639	$ 21,493	$ 20,966
Total	$ 147,141	$ 113,520	$ 79,090	$ 58,941	$ 45,954	$ 49,786
Total Actuarial Present Value of Accrued Benefits†	**$ 760,454**	**$ 628,593**	**$ 498,804**	**$ 391,675**	**$ 292,869**	**$ 284,668**
Fair Value of Assets Held in Trust for Benefits *	**$ 773,740**	**$ 796,961**	**$ 633,105**	**$ 497,333**	**$ 410,530**	**$ 321,637**
Overall Funded Ratio	**101.8%**	**126.8%**	**126.9%**	**127.0%**	**140.2%**	**113.0%**

FIREFIGHTERS

(dollars in thousands)

Valuation Date	6/30/01	6/30/99	6/30/97	6/30/95	6/30/93	6/30/91
Actuarial Present Value of Accrued Benefits:						
Vested Benefits:						
Participants Currently Receiving Payments	$ 184,010	$ 143,493	$ 112,440	$ 89,744	$ 75,530	$ 72,915
Other Participants	$ 134,261	$ 114,095	$ 96,917	$ 82,773	$ 65,601	$ 60,892
Total Vested	$ 318,271	$ 257,588	$ 209,357	$ 172,517	$ 141,131	$ 133,807
Nonvested Benefits	$ 6,370	$ 7,909	$ 7,239	$ 9,456	$ 2,777	$ 7,965
Total Pension Liabilities†	**$ 324,641**	**$ 265,497**	**$ 216,596**	**$ 181,973**	**$ 143,908**	**$ 141,772**
Fair Value of Assets for Pension Liabilities*	**$ 292,288**	**$ 311,069**	**$ 265,984**	**$ 217,836**	**$ 177,415**	**$ 139,059**
Funded Ratio for Pension Liabilities	**90.0%**	**117.2%**	**122.8%**	**119.7%**	**123.3%**	**98.1%**
Actuarial Present Value of Post Retirement Medical Liabilities						
Active	$ 42,001	$ 32,953	$ 24,490	$ 21,853	$ 17,347	$ 17,624
Retired	$ 38,024	$ 26,027	$ 19,766	$ 15,958	$ 13,301	$ 13,509
Total	$ 80,025	$ 58,980	$ 44,256	$ 37,811	$ 30,648	$ 31,133
Total Actuarial Present Value of Accrued Benefits†	**$ 404,666**	**$ 324,477**	**$ 260,852**	**$ 219,784**	**$ 174,556**	**$ 172,905**
Fair Value of Assets Held in Trust for Benefits*	**$ 369,195**	**$ 386,998**	**$ 316,865**	**$ 257,025**	**$ 211,801**	**$ 167,773**
Overall Funded Ratio	**91.2%**	**119.3%**	**121.5%**	**116.9%**	**121.3%**	**97.0%**

* Excludes the Special Account but includes the Special Reserve.

† 6/30/93 and later liabilities based on a 9% interest assumption. All prior years based on an 8% interest assumption.

NOTE: Accumulated benefit obligation is defined as the actuarial present value of benefits based on service and salary as of the valuation date.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Summary of Actuarial Assumptions And Methods

Assumptions and methods are adopted by the Board of Trustees in consultation with the actuary. An experience study was prepared as of June 30, 1997. The Board of Trustees adopted revised assumptions effective with the June 30, 1997 valuation which were used to determine contributions for the fiscal years ended June 30, 2000 and June 30, 2001.

The Board of Trustees adopted revised assumptions effective with the June 30, 2001 valuation which will be used to determine contributions for the fiscal years ending June 30, 2004 and June 30, 2005. The Board of Trustees adopted revised postretirement mortality assumptions for Firefighters effective with the June 30, 1999 valuation which will be used to determine contributions for the fiscal years ending June 30, 2002 and June 30, 2003. Note 5 in the financial section provides the financial impact of the changes in actuarial assumptions as of June 30, 2001.

GROUP I—EMPLOYEES

INTEREST RATE: 9% per annum, compounded annually.
9% per annum, compounded annually on employee contributions (includes a 3.5% inflation component).

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of withdrawal and vesting, death, disability, early retirement and normal retirement are as follows:

	Annual Rate of					
	Withdrawal and Vesting *		Death		Disability	
Age	Men	Women	Men	Women	Men	Women
25	8.00%	11.00%	.06%	.04%	.04%	.02%
30	7.00	9.00	.06	.04	.06	.05
35	6.00	7.00	.06	.04	.10	.10
40	4.00	6.00	.08	.08	.15	.10
45	4.00	5.00	.15	.11	.20	.15
50	5.00	5.00	.20	.15	.25	.20
55	5.00	4.00	.30	.19	.30	.20
59	5.00	4.00	.40	.22	.30	.24

*Withdrawal rates for the first two years of employment are multiplied by 2.0.

	Annual Rate of			
Age	Early Retirement		Normal Retirement	
	Men	Women	Men	Women
55	3.50%	3.00%	—	—
58	6.20	4.00	—	—
61	—	—	10.40%	10.00%
64	—	—	17.60	16.00
67	—	—	20.00	20.00
70	—	—	100.00	100.00

SALARY INCREASES: Representative values of the assumed rates of future salary increases are as follows (includes a 3.5% inflation component):

Age	Annual Rate of Salary Increases
25	7.70%
30	6.60
35	6.35
40	6.10
45	5.90
50	5.70
55	5.50
60	5.30
64	5.14

DEATHS AFTER RETIREMENT: According to the 1995 Buck Mortality Table set forward 1 year for men and women.

	MORTALITY RATE			MORTALITY RATE	
AGE	MEN	WOMEN	AGE	MEN	WOMEN
45	.15%	.10%	75	4.18%	2.57%
50	.24	.16	80	6.93	4.20
55	.39	.23	85	10.80	7.01
60	.74	.36	90	15.08	11.25
65	1.41	.78	95	20.53	16.81
70	2.49	1.56	100	29.35	24.98

A special mortality table was used for the period after disability retirement.

VALUATION METHOD: Open group aggregate. Under this method, the excess of the actuarial present value of projected benefits over the sum of a) the actuarial value of assets, b) the present value of future employee contributions and c) the unfunded accrued liability is allocated over the future earnings of the members between the valuation date and the assumed retirement date. The actuarial present value of projected benefits, the present value of future employee contributions and the present value of future earnings are calculated for both current members and future members. The Board of Trustees recommends that the results cannot be less than the rates using target funding assuming a 130% funded level over a 20 year horizon. Gains and losses are spread over the average future careers of both current and future active members.

ASSET VALUATION METHOD: Five-year moving average of fair values based on unit values. Under this method an artificial unit value is established as a starting point, and based on that value, the starting number of units is determined. The increase in the number of units is determined by converting the net cash flow, excluding realized and unrealized gains and losses, into additional units based on the unit value at the beginning of the measurement period. At the end of the measurement period the number of units is divided into the fair value of the fund to determine the new unit value. The average unit value over the past five years is multiplied by the number of units available at the valuation date to determine the value of assets at the valuation date. The actual value of assets used in the valuation is the middle value among book, fair, and the five-year average value, however, it cannot be lower than the five-year average value.

PERCENTAGE MARRIED: 80% of active members are assumed to be married and eligible for spouse's benefit with the husband assumed to be three years older than the wife.

SEVERANCE PAY: The valuation recognizes 100% of the effect of severance pay.

EXPENSES: Normal rate is loaded by 0.30% for fiscal year 2002 and by 0.30% for fiscal year 2001.

PROJECTION ASSUMPTIONS: The following additional assumptions were used in projecting the workforce. All other assumptions for projection purposes were identical to the valuation assumptions outlined above.

WORKFORCE SIZE: Constant

NEW ENTRANT DISTRIBUTION: The new entrants are assumed to be 40% male and 60% female distributed by age as follows:

	Male		Female	
Age	Percent	1999 Compensation Level*	Percent	1999 Compensation Level*
20	5.0%	$ 17,000	5.0%	$ 14,000
25	15.0	18,500	15.0	16,000
30	15.0	22,000	15.0	18,500
35	15.0	25,000	15.0	18,500
40	15.0	25,000	15.0	18,500
45	10.0	25,000	15.0	19,000
50	10.0	26,500	10.0	20,000
55	10.0	25,500	5.0	20,500
60	5.0	21,000	5.0	18,000

* Increases at 5.0% per annum and based on 6/30/99 new member demographics.

INVESTMENTS: The total realized rate of return on adjusted assets was 9% per annum during the projection period.

GROUP I—TEACHERS

INTEREST RATE: 9% per annum, compounded annually.
9% per annum, compounded annually on employee contributions (includes a 3.5% inflation component).

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of withdrawal and vesting, death, disability, early retirement and normal retirement are as follows:

	Annual Rate of					
	Withdrawal and Vesting *		Death		Disability	
Age	Men	Women	Men	Women	Men	Women
25	5.00%	5.00%	.06%	.05%	.01%	.01%
30	5.00	5.00	.06	.05	.01	.01
35	4.00	5.00	.06	.05	.01	.01
40	3.00	3.00	.06	.05	.01	.01
45	3.00	2.00	.06	.05	.02	.02
50	4.00	4.00	.12	.10	.05	.05
55	5.00	4.00	.18	.15	.20	.10
59	6.00	5.00	.18	.20	.30	.25

* Withdrawal rates for first year of employment are multiplied by 3.0 and for second year of employment are multiplied by 2.0. In addition, we assume for postretirement medical coverage that 80% of the deferred vested terminations will elect to receive a return of member contributions in lieu of an allowance.

	Annual Rate of	
Age	Early Retirement	Normal Retirement
55	3.00%	—
58	7.80	—
61	—	14.30%
64	—	24.20
67	—	33.25
70	—	100.00

SALARY INCREASES: Representative values of the assumed rates of future salary increases are as follows (includes a 3.5% inflation component):

Age	Annual Rate of Salary Increases
25	8.50%
30	6.50
35	5.75
40	5.50
45	5.25
50	5.00
55	5.00
60	4.00
64	4.00

DEATHS AFTER RETIREMENT: According to the 1995 Buck Mortality Table set back 2 years for women and set back 1 year for men.

	MORTALITY RATE			MORTALITY RATE	
AGE	MEN	WOMEN	AGE	MEN	WOMEN
45	.13%	.07%	75	3.40%	1.92%
50	.20	.12	80	5.68	3.11
55	.31	.18	85	9.16	5.15
60	.56	.26	90	13.32	8.57
65	1.09	.48	95	18.10	13.27
70	2.00	1.06	100	25.20	19.64

A special mortality table was used for the period after disability retirement.

VALUATION METHOD: Open group aggregate. Under this method, the excess of the actuarial present value of projected benefits over the sum of a) the actuarial value of assets, b) the present value of future employee contributions and c) the unfunded accrued liability is allocated over the future earnings of the members between the valuation date and the assumed retirement date. The actuarial present value of projected benefits, the present value of future employee contributions and the present value of future earnings are calculated for both current members and future members. The Board of Trustees recommends that the results cannot be less than the rates using target funding assuming a 130% funded level over a 20 year horizon. Gains and losses are spread over the average future careers of both current and future active members.

ASSET VALUATION METHOD: Five-year moving average of fair values based on unit values. Under this method an artificial unit value is established as a starting point, and based on that value, the starting number of units is determined. The increase in the number of units is determined by converting the net cash flow, excluding realized and unrealized gains and losses, into additional units based on the unit value at the beginning of the measurement period. At the end of the measurement period the number of units is divided into the fair value of the fund to determine the new unit value. The average unit value over the past five years is multiplied by the number of units available at the valuation date to determine the value of assets at the valuation date. The actual value of assets used in the valuation is the middle value among book, fair, and the five-year average value, however, it cannot be lower than the five-year average value.

PERCENTAGE MARRIED: 80% of active members are assumed to be married and eligible for spouse's benefit with the husband assumed to be three years older than the wife.

SEVERANCE PAY: The valuation recognizes 100% of the effect of severance pay.

EXPENSES: Employing subdivision's normal rate is loaded by 0.30% for fiscal year 2002 and by 0.30% for fiscal year 2001.

PROJECTION ASSUMPTIONS: The following additional assumptions were used in projecting the workforce. All other assumptions for projection purposes were identical to the valuation assumptions outlined above.

WORKFORCE SIZE: Constant

NEW ENTRANT DISTRIBUTION: The new entrants are assumed to be 25% male and 75% female distributed by age as follows:

	Male		Female	
Age	Percent	1999 Compensation Level*	Percent	1999 Compensation Level*
25	25.0%	$ 27,500	30.0%	$ 27,500
30	25.0	29,000	20.0	28,500
35	15.0	32,500	10.0	30,500
40	10.0	32,500	10.0	31,000
45	10.0	34,500	15.0	32,000
50	10.0	35,500	10.0	33,500
55	5.0	36,000	5.0	37,000

*Increases at 5.0% per annum and based on 6/30/99 new member demographics.

INVESTMENTS: The total realized rate of return on adjusted assets was 9% per annum during the projection period.

GROUP II — POLICE OFFICERS

INTEREST RATE: 9% per annum, compounded annually.
9% per annum, compounded annually on employee contributions
(includes a 3.5% inflation component).

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of withdrawal, vesting, death, disability, and retirement are as follows:

	Annual Rate of					
		Death		Disability		
Age	Withdrawal and Vesting	Ordinary	Accidental	Ordinary	Accidental	Retirement
25	6.00%	.05%	.01%	.01%	.01%	—
30	5.00	.06	.01	.02	.01	—
35	4.00	.07	.01	.02	.23	—
40	3.00	.10	.01	.06	.35	—
45	3.00	.14	.01	.24	.46	20.00%
50	3.00	.16	.01	.20	.58	22.08
55	2.00	.24	.01	.36	.82	24.17
60	2.00	.30	.01	1.38	.90	26.25
64	—	.40	.01	2.19	1.15	27.92
67	—	—	—	—	—	29.17
70	—	—	—	—	—	100.00

SALARY INCREASES: Representative values of the assumed rates of future salary increases are as follows (includes a 3.5% inflation component):

Age	Annual Rate of Salary Increases
25	12.50%
30	8.00
35	6.75
40	5.50
45	5.00
50	4.00
55	4.00
60	4.00
64	4.00

DEATHS AFTER RETIREMENT: According to the 1995 Buck Mortality Table set forward 1 year for men and women.

	MORTALITY RATE			MORTALITY RATE	
AGE	MEN	WOMEN	AGE	MEN	WOMEN
45	.15%	.10%	75	4.18%	2.57%
50	.24	.16	80	6.93	4.20
55	.39	.23	85	10.80	7.01
60	.74	.36	90	15.08	11.25
65	1.41	.78	95	20.53	16.81
70	2.49	1.56	100	29.35	24.98

A special mortality table was used for the period after disability retirement.

NORMAL RETIREMENT: Age 45 with 20 years of service or age 60 if earlier.

VALUATION METHOD: Open group aggregate. Under this method, the excess of the actuarial present value of projected benefits over the sum of a) the actuarial value of assets, b) the present value of future employee contributions and c) the unfunded accrued liability is allocated over the future earnings of the members between the valuation date and the assumed retirement date. The actuarial present value of projected benefits, the present value of future employee contributions and the present value of future earnings are calculated for both current members and future members. The Board of Trustees recommends that the results cannot be less than the rates using target funding assuming a 130% funded level over a 20 year horizon. Gains and losses are spread over the average future careers of both current and future active members.

ASSET VALUATION METHOD: Five-year moving average of fair values based on unit values. Under this method an artificial unit value is established as a starting point, and based on that value, the starting number of units is determined. The increase in the number of units is determined by converting the net cash flow, excluding realized and unrealized gains and losses, into additional units based on the unit value at the beginning of the measurement period. At the end of the measurement period the number of units is divided into the fair value of the fund to determine the new unit value. The average unit value over the past five years is multiplied by the number of units available at the valuation date to determine the value of assets at the valuation date. The actual value of assets used in the valuation is the middle value among book, fair, and the five-year average value, however, it cannot be lower than the five-year average value.

PERCENTAGE MARRIED: 50% of active members are assumed to be married and eligible for spouse's benefit with the husband assumed to be three years older than the wife. 40% of active members are assumed to be married and elect spousal coverage for postretirement medical benefits.

SEVERANCE PAY: The valuation recognizes 100% of the effect of severance pay.

EXPENSES: Employing subdivision's normal rate is loaded by 0.30% for fiscal year 2002 and 0.30% for fiscal year 2001.

PROJECTION ASSUMPTIONS: The following additional assumptions were used in projecting the workforce. All other assumptions for projection purposes were identical to the valuation assumptions outlined above.

WORKFORCE SIZE: Constant

NEW ENTRANT DISTRIBUTION: The new entrants are assumed to be all males distributed by age as follows:

Age	Percent	1999 Compensation Level*
20	5.0%	$20,500
25	40.0	28,000
30	30.0	28,500
35	10.0	26,000
40	5.0	25,500
45	5.0	24,000
50	5.0	24,000

*Increases at 5.0% per annum and based on 6/30/99 new member demographics.

INVESTMENTS: The total realized rate of return on adjusted assets was 9% per annum during the projection period.

GROUP II — FIREFIGHTERS

INTEREST RATE: 9% per annum, compounded annually.
9% per annum, compounded annually on employee contributions
(includes a 3.5% inflation component).

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of withdrawal and vesting, death, disability, and retirement are as follows:

	Annual Rate of					
		Death		Disability		
Age	Withdrawal and Vesting	Ordinary	Accidental	Ordinary	Accidental	Retirement
25	2.00%	.04%	.02%	.01%	.05%	—
30	1.00	.04	.02	.02	.10	—
35	1.00	.05	.02	.03	.20	—
40	1.00	.07	.02	.10	.20	—
45	1.00	.10	.02	.40	.30	14.30%
50	1.00	.11	.02	.30	1.00	13.75
55	1.00	.17	.02	.60	1.00	10.00
60	—	.21	.02	.60	1.00	20.00
64	—	.28	.02	.60	1.00	29.00
67	—	—	—	—	—	40.00
70	—	—	—	—	—	100.00

SALARY INCREASES: Representative values of the assumed rates of future salary increases are as follows (includes a 3.5% inflation component):

Age	Annual Rate of Salary Increases
25	7.62%
30	6.79
35	5.96
40	5.50
45	5.29
50	5.21
55	5.00
60	4.95
64	4.91

DEATHS AFTER RETIREMENT: According to the 1989 Buck Mortality Table.

	MORTALITY RATE			MORTALITY RATE	
AGE	MEN	WOMEN	AGE	MEN	WOMEN
45	.17%	.08%	75	4.62%	2.59%
50	.28	.12	80	7.20	4.33
55	.45	.23	85	10.92	6.94
60	.80	.44	90	15.57	10.53
65	1.50	.86	95	20.47	15.60
70	2.75	1.56	100	27.58	23.08

A special mortality table was used for the period after disability retirement.

NORMAL RETIREMENT: Age 45 with 20 years of service or age 60 if earlier.

VALUATION METHOD: Open group aggregate. Under this method, the excess of the actuarial present value of projected benefits over the sum of a) the actuarial value of assets, b) the present value of future employee contributions and c) the unfunded accrued liability is allocated over the future earnings of the members between the valuation date and the assumed retirement date. The actuarial present value of projected benefits, the present value of future employee contributions and the present value of future earnings are calculated for both current members and future members. The Board of Trustees recommends that the results cannot be less than the rates using target funding assuming a 130% funded level over a 20 year horizon. Gains and losses are spread over the average future careers of both current and future active members.

ASSET VALUATION METHOD: Five-year moving average of fair values based on unit values. Under this method an artificial unit value is established as a starting point, and based on that value, the starting number of units is determined. The increase in the number of units is determined by converting the net cash flow, excluding realized and unrealized gains and losses, into additional units based on the unit value at the beginning of the measurement period. At the end of the measurement period the number of units is divided into the fair value of the fund to determine the new unit value. The average unit value over the past five years is multiplied by the number of units available at the valuation date to determine the value of assets at the valuation date. The actual value of assets used in the valuation is the middle value among book, fair, and the five-year average value, however, it cannot be lower than the five-year average value.

PERCENTAGE MARRIED: 50% of active members are assumed to be married and eligible for spouse's benefit with the husband assumed to be three years older than the wife. 40% of active members are assumed to be married and elect spousal coverage for postretirement medical benefits.

SEVERANCE PAY: The valuation recognizes 100% of the effect of severance pay.

EXPENSES: Employing subdivision's normal rate is loaded by 0.30% for fiscal year 2002 and by 0.30% for fiscal year 2001.

PROJECTION ASSUMPTIONS: The following additional assumptions were used in projecting the workforce. All other assumptions for projection purposes were identical to the valuation assumptions outlined above.

WORKFORCE SIZE: Constant

NEW ENTRANT DISTRIBUTION: The new entrants are assumed to be all males distributed by age as follows:

Age	Percent	1999 Compensation Level*
20	5.0%	$25,000
25	25.0	33,000
30	30.0	33,000
35	20.0	32,000
40	10.0	33,000
45	10.0	32,000

*Increases at 5.0% per annum and based on 6/30/99 new member demographics.

INVESTMENTS: The total realized rate of return on adjusted assets was 9% per annum during the projection period.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Historical Membership Data—Active and Retired

The following 4 tables summarize the actuarial valuation data for the period from 1991 through 2001. Since biennial valuations are prepared, the data is available for odd years only.

EMPLOYEES

(aggregate compensation and aggregate benefit dollars in thousands)

ACTIVE MEMBERSHIP DATA

FISCAL YEAR	NUMBER OF ACTIVES***	AGGREGATE COMPENSATION	AVERAGE COMPENSATION	% INCREASE IN AVERAGE COMPENSATION
2001	24,413	$ 676,536	$ 27,712	6.08%
1999	22,519	588,290	26,124	3.86
1997	21,307	535,936	25,153	(1.26)
1995	20,717	527,715	25,473	5.51
1993	19,730	476,326	24,142	5.47
1991	18,971	434,225	22,889	11.16

RETIRED MEMBERSHIP DATA

	ADDED TO ROLLS		REMOVED FROM ROLLS		ROLLS END OF YEAR			
FISCAL YEAR	NO.*	ANNUAL** ALLOWANCES	NO.*	ANNUAL** ALLOWANCES	NO.*	ANNUAL** ALLOWANCES	% INCREASE IN ANNUAL ALLOWANCES	AVERAGE ANNUAL ALLOWANCES
2001	1,095	$10,078	617	$3,965	8,406	$72,025	17.11 %	$8,568
1999	1,183	10,077	571	3,195	7,928	61,501	20.00	7,757
1997	1,064	9,120	578	2,724	7,316	51,249	19.11	7,005
1995	1,195	N/A	393	N/A	6,830	43,027	26.95	6,300
1993	855	N/A	302	N/A	6,028	33,892	18.77	5,622
1991	928	N/A	394	N/A	5,475	28,535	25.38	5,212

TEACHERS

(aggregate compensation and aggregate benefit dollars in thousands)

ACTIVE MEMBERSHIP DATA

FISCAL YEAR	NUMBER OF ACTIVES***	AGGREGATE COMPENSATION	AVERAGE COMPENSATION	% INCREASE IN AVERAGE COMPENSATION
2001	17,718	$ 700,361	$ 39,528	4.02%
1999	16,034	609,275	37,999	3.27
1997	15,062	554,208	36,795	3.09
1995	14,419	514,653	35,693	2.41
1993	13,889	484,070	34,853	6.50
1991	13,693	448,107	32,725	25.15

RETIRED MEMBERSHIP DATA

	ADDED TO ROLLS		REMOVED FROM ROLLS		ROLLS END OF YEAR			
FISCAL YEAR	NO.*	ANNUAL** ALLOWANCES	NO.*	ANNUAL** ALLOWANCES	NO.*	ANNUAL** ALLOWANCES	% INCREASE IN ANNUAL ALLOWANCES	AVERAGE ANNUAL ALLOWANCES
2001	501	$ 8,375	272	$2,691	4,518	$69,036	12.62 %	$15,280
1999	685	11,458	292	2,504	4,289	61,301	25.29	14,293
1997	583	9,528	294	2,220	3,896	48,927	28.21	12,558
1995	627	N/A	204	N/A	3,607	38,161	45.93	10,580
1993	428	N/A	165	N/A	3,184	26,151	31.41	8,213
1991	334	N/A	228	N/A	2,921	19,900	20.73	6,813

* Includes beneficiaries in receipt but excludes deferred vested terminations.

** Includes additional COLA allowances. The benefit amounts shown are the monthly benefits as of the valuation date annualized and are not the actual benefits paid during the fiscal year.

*** Excludes temporary inactive members.

POLICE OFFICERS

(aggregate compensation and aggregate benefit dollars in thousands)

ACTIVE MEMBERSHIP DATA

FISCAL YEAR	NUMBER OF ACTIVES***	AGGREGATE COMPENSATION	AVERAGE COMPENSATION	% INCREASE IN AVERAGE COMPENSATION
2001	4,124	$ 171,489	$ 41,583	8.49%
1999	3,600	137,981	38,328	4.30
1997	3,393	124,669	36,743	3.97
1995	3,254	114,994	35,339	1.52
1993	2,980	103,734	34,810	7.15
1991	2,914	94,670	32,488	10.85

RETIRED MEMBERSHIP DATA

	ADDED TO ROLLS		REMOVED FROM ROLLS		ROLLS END OF YEAR			
FISCAL YEAR	NO.*	ANNUAL** ALLOWANCES	NO.*	ANNUAL** ALLOWANCES	NO.*	ANNUAL** ALLOWANCES	% INCREASE IN ANNUAL ALLOWANCES	AVERAGE ANNUAL ALLOWANCES
2001	280	$6,085	63	$960	1,586	$38,290	25.58 %	$24,142
1999	238	5,790	39	604	1,369	30,490	30.00	22,272
1997	167	3,252	54	648	1,170	23,450	22.39	20,043
1995	194	N/A	32	N/A	1,057	19,160	41.07	18,127
1993	122	N/A	19	N/A	895	13,582	22.51	15,175
1991	141	N/A	36	N/A	792	11,086	34.23	13,998

FIREFIGHTERS

(aggregate compensation and aggregate benefit dollars in thousands)

ACTIVE MEMBERSHIP DATA

FISCAL YEAR	NUMBER OF ACTIVES***	AGGREGATE COMPENSATION	AVERAGE COMPENSATION	% INCREASE IN AVERAGE COMPENSATION
2001	1,433	$ 67,485	$ 47,094	8.57%
1999	1,339	58,081	43,376	6.50
1997	1,289	52,500	40,729	4.68
1995	1,289	50,151	38,907	6.51
1993	1,287	47,013	36,529	9.54
1991	1,307	43,586	33,348	12.97

RETIRED MEMBERSHIP DATA

	ADDED TO ROLLS		REMOVED FROM ROLLS		ROLLS END OF YEAR			
FISCAL YEAR	NO.*	ANNUAL** ALLOWANCES	NO.*	ANNUAL** ALLOWANCES	NO.*	ANNUAL** ALLOWANCES	% INCREASE IN ANNUAL ALLOWANCES	AVERAGE ANNUAL ALLOWANCES
2001	164	$3,861	39	$541	906	$20,422	29.36 %	$22,541
1999	108	2,684	41	514	781	15,787	25.03	20,214
1997	93	2,244	38	432	714	12,627	23.01	17,685
1995	63	N/A	28	N/A	659	10,265	19.35	15,576
1993	60	N/A	22	N/A	624	8,601	15.06	13,784
1991	72	N/A	26	N/A	586	7,475	19.58	12,756

* Includes beneficiaries in receipt but excludes deferred vested terminations.

** Includes additional COLA allowances. The benefit amounts shown are the monthly benefits as of the valuation date annualized and are not the actual benefits paid during the fiscal year.

*** Excludes temporary inactive members.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Solvency Test

TOTAL OF ALL GROUPS

(dollars in thousands)

Fiscal Year	(1) Aggregate Member Contributions	Projected Liabilities For (2) Current Retirees & Beneficiaries	(3) Active & Inactive Members (Employer Financed Portion)*	Net Assets Held For Benefits**	Percentage of Accrued Liabilities Covered By Net Assets Held for Benefits (1)	(2)	(3)
2002	$1,575,703	$1,862,864	$ 757,747	$ 3,443,395	100.00%	100.00%	0.64%
2001	$1,481,974	$1,675,941	$ 684,687	$ 3,264,901	100.00%	100.00%	15.63%
2000	$1,309,395	$1,536,578	$ 614,286	$ 3,109,734	100.00%	100.00%	42.94%
1999	$1,229,239	$1,464,941	$ 535,011	$ 2,886,526	100.00%	100.00%	35.95%
1998	$1,129,695	$1,278,159	$ 516,804	$ 3,167,053	100.00%	100.00%	100.00%
1997	$1,027,616	$1,172,285	$ 477,131	$ 2,941,505	100.00%	100.00%	100.00%
1996	$ 929,829	$ 986,295	$ 502,774	$ 2,547,190	100.00%	100.00%	100.00%

EMPLOYEES

(dollars in thousands)

Fiscal Year	(1) Aggregate Member Contributions	Projected Liabilities For (2) Current Retirees & Beneficiaries	(3) Active & Inactive Members (Employer Financed Portion)*	Net Assets Held For Benefits**	Percentage of Accrued Liabilities Covered By Net Assets Held for Benefits (1)	(2)	(3)
2002	$ 553,104	$ 617,708	$ 207,327	$ 1,058,702	100.00%	81.85%	0.00%
2001	$ 505,941	$ 561,718	$ 192,915	$ 997,539	100.00%	87.52%	0.00%
2000	$ 436,460	$ 515,947	$ 166,567	$ 955,057	100.00%	100.00%	1.59%
1999	$ 419,864	$ 501,219	$ 131,556	$ 888,554	100.00%	93.51%	0.00%
1998	$ 381,408	$ 453,196	$ 129,150	$ 982,255	100.00%	100.00%	100.00%
1997	$ 347,726	$ 418,829	$ 117,983	$ 914,804	100.00%	100.00%	100.00%
1996	$ 315,455	$ 355,207	$ 137,050	$ 794,959	100.00%	100.00%	90.69%

TEACHERS

(dollars in thousands)

Fiscal Year	(1) Aggregate Member Contributions	Projected Liabilities For (2) Current Retirees & Beneficiaries	(3) Active & Inactive Members (Employer Financed Portion)*	Net Assets Held For Benefits**	Percentage of Accrued Liabilities Covered By Net Assets Held for Benefits (1)	(2)	(3)
2002	$ 681,141	$ 650,033	$ 303,105	$ 1,427,057	100.00%	100.00%	31.63%
2001	$ 656,208	$ 578,020	$ 265,108	$ 1,355,757	100.00%	100.00%	45.84%
2000	$ 579,900	$ 547,844	$ 281,655	$ 1,293,907	100.00%	100.00%	59.00%
1999	$ 537,114	$ 528,764	$ 245,278	$ 1,190,269	100.00%	100.00%	50.71%
1998	$ 495,845	$ 450,786	$ 244,476	$ 1,301,650	100.00%	100.00%	100.00%
1997	$ 446,967	$ 417,390	$ 223,086	$ 1,196,062	100.00%	100.00%	100.00%
1996	$ 405,916	$ 338,028	$ 234,448	$ 1,028,870	100.00%	100.00%	100.00%

* Liabilities for active members are based on service as of the valuation date and projected compensation at the member's expected retirement date. Also includes terminated vested members.

** Based on Actuarial Value of Assets excluding Special Account and reserve for medical subsidy for Fiscal Year 1999, 2000, 2001, and 2002 and based on Fair Value of Assets for Fiscal Years prior to 1999.

NOTE: Based on a 9% interest rate.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

POLICE OFFICERS

(dollars in thousands)

Fiscal Year	Projected Liabilities For: (1) Aggregate Member Contributions	(2) Current Retirees & Beneficiaries	(3) Active & Inactive Members (Employer Financed Portion)*	Net Assets Held For Benefits**	Percentage of Accrued Liabilities Covered By Net Assets Held for Benefits: (1)	(2)	(3)
2002	$ 226,996	$ 388,254	$ 155,059	$ 647,996	100.00%	100.00%	21.12%
2001	$ 210,063	$ 352,193	$ 143,042	$ 616,370	100.00%	100.00%	37.83%
2000	$ 190,592	$ 316,404	$ 106,288	$ 581,843	100.00%	100.00%	70.42%
1999	$ 175,847	$ 291,465	$ 102,361	$ 545,198	100.00%	100.00%	76.09%
1998	$ 163,055	$ 250,584	$ 93,394	$ 603,742	100.00%	100.00%	100.00%
1997	$ 150,905	$ 223,626	$ 88,849	$ 564,654	100.00%	100.00%	100.00%
1996	$ 134,743	$ 195,777	$ 77,509	$ 489,653	100.00%	100.00%	100.00%

FIREFIGHTERS

(dollars in thousands)

Fiscal Year	Projected Liabilities For: (1) Aggregate Member Contributions	(2) Current Retirees & Beneficiaries	(3) Active & Inactive Members (Employer Financed Portion)*	Net Assets Held For Benefits**	Percentage of Accrued Liabilities Covered By Net Assets Held for Benefits: (1)	(2)	(3)
2002	$ 114,462	$ 206,869	$ 92,256	$ 309,640	100.00%	94.35%	0.00%
2001	$ 109,762	$ 184,010	$ 83,622	$ 295,235	100.00%	100.00%	1.75%
2000	$ 102,443	$ 156,383	$ 59,776	$ 278,927	100.00%	100.00%	33.63%
1999	$ 96,414	$ 143,493	$ 55,816	$ 262,505	100.00%	100.00%	40.49%
1998	$ 89,387	$ 123,593	$ 49,784	$ 279,406	100.00%	100.00%	100.00%
1997	$ 82,018	$ 112,440	$ 47,213	$ 265,985	100.00%	100.00%	100.00%
1996	$ 73,715	$ 97,283	$ 53,767	$ 233,708	100.00%	100.00%	100.00%

* Liabilities for active members are based on service as of the valuation date and projected compensation at the member's expected retirement date. Also includes terminated vested members.

** Based on Actuarial Value of Assets excluding Special Account and reserve for medical subsidy for Fiscal Year 1999, 2000, 2001, and 2002 and based on Fair Value of Assets for Fiscal Years prior to 1999.

NOTE: Based on a 9% interest rate.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

This presentation shows the experience of actual financial results relative to expected results. It is an analysis which focuses on actuarial gains and losses over the most recent five actuarial valuations and reconciles the difference in the actuarial normal contribution rates from the expected to actual values.

RECONCILIATION OF EMPLOYER NORMAL RATE *

EMPLOYEES

YEAR ENDED	June 30 2001	June 30 1999	June 30 1997	June 30 1995	June 30 1993
Projected Normal Rate*	4.14%	3.94%	3.86%	3.14%	2.65%
Decremental Experience	.13	.15	.19	.17	.11
Pensioner's Experience	.03	.01	.01	.02	.01
Excess Salary Increases	—	(.05)	(.13)	(.05)	(.06)
Assets Different than Expected	.20	—	(.03)	.06	(.15)
Current New Entrants	(.05)	(.04)	(.04)	(.05)	.01
Amendments	—	—	—	.01	—
Assumption Changes #	.72	.18	.12	.38	.47
Balancing Items	(.05)	(.05)	(.04)	.18	.10
ACTUAL NORMAL RATE	**5.12%**	**4.14%**	**3.94%**	**3.86%**	**3.14%**

TEACHERS

YEAR ENDED	June 30 2001	June 30 1999	June 30 1997	June 30 1995	June 30 1993
Projected Normal Rate *	3.97%	4.11%	4.05%	3.35%	2.79%
Decremental Experience	.04	.12	.12	.12	.12
Pensioner's Experience	.01	—	—	.01	.03
Excess Salary Increases	(.10)	(.15)	(.17)	(.30)	(.08)
Assets Different than Expected	.25	(.12)	(.03)	.02	(.19)
Current New Entrants	(.07)	(.07)	(.05)	(.05)	—
Amendments	—	—	—	—	—
Assumption Changes #	(.70)	.09	.16	.49	.91
Balancing Items	.04	(.01)	.03	.41	(.23)
ACTUAL NORMAL RATE	**3.44%**	**3.97%**	**4.11%**	**4.05%**	**3.35%**

* Based on forecast valuations.

\# Includes new entrant population assumption changes.

This presentation shows the experience of actual financial results relative to expected results. It is an analysis which focuses on actuarial gains and losses over the most recent five actuarial valuations and reconciles the difference in the actuarial normal contribution rates from the expected to actual values.

RECONCILIATION OF EMPLOYER NORMAL RATE *

POLICE OFFICERS

YEAR ENDED	June 30 2001	June 30 1999	June 30 1997	June 30 1995	June 30 1993
Projected Normal Rate *	8.20%	7.13%	5.22%	3.81%	5.07%
Decremental Experience	.32	.34	.23	.33	.15
Pensioner's Experience	.04	.05	.04	.06	(.01)
Excess Salary Increases	.37	—	(.15)	(.24)	.01
Assets Different than Expected	.60	.05	(.10)	.18	(.71)
Current New Entrants	(.06)	(.01)	.04	.01	(.02)
Amendments	—	—	—	.07	(.01)
Assumption Changes #	1.24	.50	1.24	.87	(.98)
Demographics	—	—	.43	—	—
Balancing Items	(.24)	.14	.18	.13	.31
ACTUAL NORMAL RATE	**10.47%**	**8.20%**	**7.13%**	**5.22%**	**3.81%**

FIREFIGHTERS

YEAR ENDED	June 30 2001	June 30 1999	June 30 1997	June 30 1995	June 30 1993
Projected Normal Rate *	10.17%	8.30%	7.61%	6.47%	8.15%
Decremental Experience	.38	.21	.34	(.05)	(.14)
Pensioner's Experience	.12	.05	.09	.23	(.10)
Excess Salary Increases	.57	.05	(.08)	(.36)	.13
Assets Different than Expected	.67	.62	(.04)	.22	(.18)
Current New Entrants	(.06)	(.03)	.08	.01	.07
Amendments	—	—	—	.06	(.01)
Assumption Changes #	2.67	.91	(.50)	1.07	(1.41)
Demographics	—	—	.57	—	—
Balancing Items	(.11)	.06	.23	(.04)	(.04)
ACTUAL NORMAL RATE	**14.41%**	**10.17%**	**8.30%**	**7.61%**	**6.47%**

* Based on forecast valuations.

\# Includes new entrant population assumption changes.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Summary of Principal Plan Provisions As Interpreted For Valuation Purposes

1—GENERAL

Plan Name	New Hampshire Retirement System.
Effective Date	July 1, 1967.
Membership	Prospectively, any employee, teacher, permanent police officer or permanent firefighter becomes a member as a condition of employment; except in the case of elected officials or officials appointed for fixed terms, membership is optional.
Average Final Compensation (AFC)	Average annual compensation during highest 3 years.
NOTE:	A more detailed description of the plan provisions is available from the System's administrative office.

2—BENEFITS

GROUP I MEMBERS (EMPLOYEES AND TEACHERS)

Service Retirement

Eligibility	Age 60.
Amount of Benefit	A member annuity equal to the actuarial equivalent of the member's accumulated contributions plus a state annuity. Prior to the member's attainment of age 65, the state annuity, together with the member annuity, shall be equal to 1/60 of AFC multiplied by years of service. After attainment of age 65, the state annuity, together with the member annuity, shall be equal to 1/66 of AFC multiplied by years of service.

Reduced Service Retirement

Eligibility	Age plus service of at least 70, provided the member has at least 20 years of service or age 50 with at least 10 years of service.
Amount of Benefit	Service retirement benefit is reduced by the following percents for each month that benefits commence prior to age 60.

Years of Service at Retirement	Monthly Percent Reduction
35 or more	1/8 of 1%
30–35	1/4 of 1%
25–30	1/3 of 1%
20–25	5/12 of 1%
less than 20	5/9 of 1%

Ordinary Disability Retirement

Eligibility	10 years of service and permanent disability.
Amount of Benefit	Service retirement benefit if age 60, otherwise a member annuity plus a state annuity which together equals 1.5% of AFC multiplied by the number of years of creditable service at the time of disability; provided that the benefit shall not be less than 25% of AFC.

Accidental Disability Retirement

Eligibility	Permanently disabled due to accident occurring while in the performance of duty.
Amount of Benefit	Service retirement benefit if age 60, otherwise a member annuity plus a state annuity which together equals 50% of AFC; provided that the benefit shall not be less than 50% of AFC.

Ordinary Death Benefit

Eligibility	Death, other than accidental death.
Amount of Benefit	(a) If 10 years of service or if eligible for service retirement and, (i) if survived by a spouse, 50% of the service retirement benefit payable until death or remarriage; (ii) if no surviving spouse or member designated a beneficiary other than a spouse, a lump sum equal to the greater of $3,600 or the member's annual compensation. (b) If less than 10 years of service and if not eligible for service retirement, a lump sum equal to the greater of $3,600 or the member's annual compensation.

Accidental Death Benefit

Eligibility	Accidental death occurring while in the performance of duty.
Amount of Benefit	Benefit equal to 50% of AFC.

Vested Deferred Retirement

Eligibility	10 years of service, if no withdrawal of contributions.
Amount of Benefit	Payable at age 60, a member annuity plus a state annuity which together equals the service retirement benefit that would be payable after age 60. The benefit changes at age 65 as for service retirement. At any time after attainment of age 50, a member may have his benefit commence early, however, the benefit will be reduced for early commencement using the same early retirement reduction factors as described under reduced service retirement.

Return of Members' Contributions

(a) Upon termination of service other than for retirement or death, and if vested deferred retirement benefit has not been elected, the member's accumulated contributions are returned to him.

(b) Upon accidental death or upon other death for which no surviving spouse's benefit is payable, the member's accumulated contributions will be paid to the member's beneficiary or estate.

(c) Upon death prior to age 60 of a member on deferred vested retirement, the member's accumulated contributions will be paid to the member's beneficiary or estate.

(d) Upon death of a retired member (or the survivor of a retired member, if an optional benefit was elected), the excess of his accumulated contributions at retirement over the benefits received by the retired member (and, in the case of election of an optional benefit, the benefits received by the survivor) will be paid to the beneficiary or estate of the member.

Special Provisions Applicable to Certain Members Transferred from the Employees' Retirement System of the State of New Hampshire

Certain employee members transferred to the New Hampshire Retirement System effective January 1, 1976 have elected to have their benefits calculated on the basis of the provisions of the Predecessor System.

GROUP II MEMBERS (POLICE OFFICERS AND FIREFIGHTERS)

Service Retirement	
Eligibility	Age 45 and 20 years service or age 60 if earlier (age 65 before July 1,1989), regardless of number of years of service.
Amount of Benefit	A member annuity equal to the actuarial equivalent of the member's accumulated contributions plus a state annuity which together with the member annuity is equal to 2-1/2% of AFC times years of service, but not more than 40 years. Effective July 1, 1992, if a member retires on a full service retirement, the minimum annual benefit (prior to reduction for optional form of payment) is $5,200. The minimum annual benefit is reduced for benefits payable from Social Security and from any public body benefits.
Ordinary Disability Retirement	
Eligibility	10 years service and permanent disability.
Amount of Benefit	A member annuity plus a state annuity which together equals the service retirement benefit; provided that the benefit shall not be less than 25% of the member's annual compensation.
Accidental Disability Retirement	
Eligibility	Permanent disability occurring while in the performance of duty.
Amount of Benefit	A member annuity as for service retirement plus a state annuity which together with the member annuity is equal to 2/3 of AFC. If a member has completed more than 26-2/3 years of service, then a supplemental disability allowance will also be paid equal to 2-1/2% of AFC multiplied by service in excess of 26-2/3 years but not in excess of 40 years.
Ordinary Death Benefit	
Eligibility	Death other than accidental death.
Amount of Benefit	(a) If 10 years service or if eligible for service retirement and, (i) if survived by a spouse, 50% of the service retirement benefit payable until death or remarriage. (ii) if no surviving spouse or member designated a beneficiary other than a spouse, a lump sum equal to the greater of $3,600 or member's annual compensation. (b) If less than 10 years service and not eligible for service retirement, a lump sum equal to the greater of $3,600 or the member's annual compensation.
Accidental Death Benefit	
Eligibility	Accidental death occurring while in the performance of duty.
Amount of Benefit	50% of the annual rate of compensation payable first to spouse until death or remarriage, then to children under age 18 or if no spouse or children, to dependent parent.
Death after Retirement	**Retirement Prior to April 1, 1987**
	Lump sum of $3,600 unless accidental disability retirement, then surviving spouse receives 50% of the retired member's disability benefits payable until death or remarriage.

	Retirement on or after April 1, 1987
	Benefit payable to surviving spouse until death or remarriage equal to 50% of the member's service, ordinary disability or accidental disability retirement allowance if member was married on the date of retirement plus a lump sum. The lump sum shall be equal to:

If retired prior to July 1, 1988:	$ 3,600
If retired on or after July 1, 1988:	
If Group II member as of June 30, 1988	$10,000
If becomes a Group II member after June 30, 1988 and prior to July 1, 1993	$ 3,600

Special Death Benefit—Old Firefighter's System

Continuance of duty connected disability benefits to spouse of deceased retired member payable until death or remarriage.

Vested Deferred Retirement

Eligibility	10 years of service, if no withdrawal of contributions.
Amount of Benefit	Payable when the member would be age 45 with 20 years of service, a benefit determined as for service retirement.

Return of Members' Contributions

(a) Upon termination of service other than for retirement or death, and if vested deferred retirement has not been elected, the member's accumulated contributions are returned to the member.

(b) Upon accidental death or upon other death for which no surviving spouse's benefit is payable, the member's accumulated contributions will be paid to the member's beneficiary or estate.

(c) Upon death of a member on vested deferred retirement prior to the time benefits commence, the member's accumulated contributions will be paid to the member's beneficiary or estate.

(d) Upon death of the survivor of a member retired on accidental disability and his spouse in receipt of the accidental disability survivor benefit, the excess of the member's accumulated contributions at retirement over the benefits received by the member and the spouse will be paid to the beneficiary or estate.

(e) Upon death of a retired member (or the survivor of a retired member, if an optional benefit was elected), the excess of accumulated contributions at retirement over the benefits received by the retired member (and, in the case of election of an optional benefit, the benefits received by the survivor) will be paid to the beneficiary or estate of the member.

Benefits for Call Firefighters

Accidental Disability	Annual benefit not to exceed $1,250 if permanently disabled while in the performance of duty.

Accidental Death	Annual benefit not to exceed $1,250 if death as a result of injury received while in the performance of duty. Paid to spouse until death or remarriage, then to children until age 18 or if no spouse or children under 18, to the dependent parent.
Death after Accidental Disability	Upon death of a call firefighter receiving accidental disability benefits, the benefit will continue to be paid to the spouse until death or remarriage, then to children under age 18.

3—CONTRIBUTIONS

GROUP I MEMBERS (EMPLOYEES AND TEACHERS)

By Members	5.00% of compensation.
By Employer	
For Employee Members	100% of the normal contribution rate for their employees plus accrued liability contributions, if any.
For Teacher Members	65% of the normal contribution rate for their employees plus 65% of the accrued liability contributions, if any.
By the State	
For Employee Members	100% of the normal contribution rate for its employees plus accrued liability contributions, plus any delinquent accrued liability contributions.
For Teacher Members	35% of the normal contribution rate for the employees of the employing subdivisions plus 35% of the accrued liability contributions, if any, plus any delinquent accrued liability contributions. In the case of teacher members employed by the state, the state shall pay 100% of both the normal and accrued liability contributions, if any.

GROUP II MEMBERS (POLICE OFFICERS AND FIREFIGHTERS)

By Members	
Police Officers and Firefighters	9.30% of compensation.
Call Firefighters	$6 per year (not refundable).
By Employing Subdivisions	65% of the normal contribution rate for their employees plus 65% of the accrued liability contributions, if any.
By the State	35% of the normal contribution rate for the employees of the employing subdivision plus 35% accrued liability contributions, if any, plus any delinquent accrued liability contributions. In the case of Group II members employed by the state, the state shall pay 100% of both the normal and accrued liability contributions, if any.

CHANGES IN PLAN PROVISIONS

The June 30, 1999 valuation determined the contributions of the System for the fiscal years ended June 30, 2002 and June 30, 2003. The funded ratio information on pages 74, 75, and 76 is as of June 30, 2002 and June 30, 2001. The liabilities shown for the System reflect all legislation enacted as of the measurement date. For a summary of the legislation reflected see pages 40, 41, and 42.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

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TATISTICAL
ECTION

SCHEDULES OF ADDITIONS AND DEDUCTIONS—COMBINED PLANS

ADDITIONS BY SOURCE

(dollars in thousands)

Fiscal Year	Member Contributions	Employer Contributions: Dollars	Employer Contributions: % of Annual Covered Payroll	Net Investment Income (Loss)	Transfer in From Medical Special Account	Other	Total
2002	$103,211	$83,516	4.9%	($322,826)	$25,958	$2,121	($108,020)
2001	93,999	74,656	4.6	(357,130)	18,317	5,669	(164,489)
2000	88,237	69,828	4.8	526,539	8,037	6,843	699,484
1999	81,566	61,342	4.4	506,123	3,159	5,005	657,195
1998	77,395	58,977	4.6	534,722	3,043	5,450	679,587
1997	73,669	46,151	3.6	511,049	2,273	3,503	636,645
1996	71,674	44,903	3.7	407,528	2,096	3,171	529,372
1995	69,035	40,034	3.3	393,100	2,753	2,934	507,856
1994	65,556	38,796	3.3	30,241	2,755	2,907	140,255

DEDUCTIONS BY TYPE

(dollars in thousands)

Fiscal Year	Pension Benefits	Health Insurance Subsidy Benefits	Refunds	Administrative Expenses	Transfer Out To Pension Plan	Other	Total
2002	$224,412	$24,009	$15,278	$4,774	$25,958	$1,344	$295,775
2001	200,116	13,070	16,979	4,405	18,317	1,273	254,160
2000	177,489	8,124	19,485	3,353	8,037	1,296	217,784
1999	156,436	5,147	17,411	3,367	3,159	908	186,428
1998	139,726	4,574	16,939	4,642	3,043	730	169,654
1997	126,512	4,013	15,603	3,581	2,273	1,475	153,457
1996	114,049	3,450	12,673	3,256	2,096	1,076	136,600
1995	102,242	3,289	10,961	3,037	2,753	615	122,897
1994	90,387	2,684	9,306	2,952	2,755	756	108,840

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Schedule of Benefit Payments By Type

BENEFIT PAYMENTS BY TYPE—COMBINED PLANS*

(in thousands)

Fiscal Year	Type of Retirement	Employees	Teachers	Police Officers	Firefighters	Total
2001	Service & Early Retirements	$59,953	$64,891	$29,525	$15,389	$169,758
	Ordinary Disability Retirements	2,416	1,799	642	467	5,324
	Accidental Disability Retirements	4,058	245	5,562	2,254	12,119
	Ordinary Death in Active Service	75	80	32	60	247
	Accidental Death in Active Service	110	57	268	201	636
	Beneficiaries**	5,412	1,965	2,261	2,053	11,691
	Refunds	10,606	5,031	2,709	265	18,611
	Postretirement Medical Premium Subsidies	596	5,536	4,462	2,476	13,070
	Total	**$83,226**	**$79,604**	**$45,461**	**$23,165**	**$231,456**
1999	Service & Early Retirements	$52,458	$57,995	$23,644	$11,799	$145,896
	Ordinary Disability Retirements	1,704	1,475	510	424	4,113
	Accidental Disability Retirements	3,275	196	4,674	2,019	10,164
	Ordinary Death in Active Service	93	74	30	20	217
	Accidental Death in Active Service	90	80	258	191	619
	Beneficiaries**	3,881	1,480	1,373	1,335	8,069
	Refunds	10,629	5,304	2,586	552	19,071
	Postretirement Medical Premium Subsidies	—	—	3,340	1,809	5,149
	Total	**$72,130**	**$66,604**	**$36,415**	**$18,149**	**$193,298**
1997	Service & Early Retirements	$44,160	$46,350	$17,885	$ 9,062	$117,457
	Ordinary Disability Retirements	1,331	1,233	403	450	3,417
	Accidental Disability Retirements	2,555	143	3,870	1,765	8,333
	Ordinary Death in Active Service	106	69	28	35	238
	Accidental Death in Active Service	95	91	206	219	611
	Beneficiaries**	3,003	1,041	1,058	1,096	6,198
	Refunds	8,545	6,209	2,016	765	17,535
	Postretirement Medical Premium Subsidies	—	—	2,547	1,466	4,013
	Total	**$59,795**	**$55,136**	**$28,013**	**$14,858**	**$157,802**

* Includes COLA allowances.

** Beneficiaries of deceased members who retired on a service or disability retirement.

NOTE: Fiscal years 2001, 1999 and 1997 are the only data available at this time. Data for future years will be reported prospectively.

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Schedule of Retired Members By Type of Benefit

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFITS AS OF JUNE 30, 2001

Amount of Monthly Benefit	Number of Retirees	Type of Retirement** 1	2	3	4	5	6	7
EMPLOYEES								
$1–250	1,849	1,520	5	2	5	—	231	86
251–500	2,166	1,816	58	2	2	—	170	118
501–750	1,767	1,305	158	62	3	1	179	59
751–1,000	1,034	797	30	122	2	2	55	26
1,001–1,250	641	498	14	78	—	2	37	12
1,251–1,500	434	352	6	34	1	2	26	13
1,501–1,750	257	224	5	13	—	—	14	1
1,751–2,000	179	155	1	5	—	1	15	2
Over 2,000	398	355	5	10	—	—	26	2
Totals	**8,725**	**7,022**	**282**	**328**	**13**	**8**	**753**	**319**
TEACHERS								
$1–250	294	168	1	—	—	—	24	101
251–500	572	457	3	—	1	—	25	86
501–750	726	581	46	—	1	—	39	59
751–1,000	591	506	38	2	—	—	17	28
1,001–1,250	546	483	23	3	2	1	15	19
1,251–1,500	452	422	10	3	—	—	10	7
1,501–1,750	472	446	7	3	2	1	11	2
1,751–2,000	400	376	10	2	—	1	9	2
Over 2,000	770	745	7	1	—	—	16	1
Totals	**4,823**	**4,184**	**145**	**14**	**6**	**3**	**166**	**305**
POLICE OFFICERS								
$1–250	52	45	—	—	—	1	3	3
251–500	81	28	—	—	—	2	39	12
501–750	85	53	3	1	—	—	21	7
751–1,000	142	68	22	13	—	4	33	2
1,001–1,250	120	81	9	12	—	2	16	—
1,251–1,500	121	90	6	14	—	1	10	—
1,501–1,750	139	87	4	38	—	—	10	—
1,751–2,000	144	101	2	30	—	—	10	1
Over 2,000	727	581	2	116	1	5	22	—
Totals	**1,611**	**1,134**	**48**	**224**	**1**	**15**	**164**	**25**
FIREFIGHTERS								
$1–250	8	2	—	1	—	1	3	1
251–500	41	6	—	—	—	4	29	2
501–750	29	11	—	—	—	—	17	1
751–1,000	97	32	5	5	—	4	51	—
1,001–1,250	96	49	7	14	—	3	23	—
1,251–1,500	94	61	5	16	—	2	10	—
1,501–1,750	101	62	7	16	1	1	14	—
1,751–2,000	93	64	1	20	—	1	7	—
Over 2,000	351	304	3	33	1	1	9	—
Totals	**910**	**591**	**28**	**105**	**2**	**17**	**163**	**4**

**Type of Retirement: 1—Service and early retirement. 2—Ordinary disability retirement. 3—Accidental disability retirement. 4—Ordinary death in active service. 5—Accidental death in active service. 6—Beneficiaries of deceased members who retired on a service or disability allowance. 7—Vested member with future benefit

				Option Selected #					
No Option	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8	Option 9
966	253	236	86	307	—	—	—	1	—
1,207	239	211	106	403	—	—	—	—	—
857	236	210	82	381	1	—	—	—	—
528	104	86	57	259	—	—	—	—	—
269	72	84	37	179	—	—	—	—	—
185	34	63	31	121	—	—	—	—	—
97	13	46	15	86	—	—	—	—	—
55	16	26	7	75	—	—	—	—	—
95	26	75	32	170	—	—	—	—	—
4,259	**993**	**1,037**	**453**	**1,981**	**1**	**—**	**—**	**1**	**—**
203	46	16	5	23	1	—	—	—	—
339	132	30	13	58	—	—	—	—	—
361	206	42	21	96	—	—	—	—	—
318	128	34	20	91	—	—	—	—	—
281	77	49	25	114	—	—	—	—	—
205	65	46	11	125	—	—	—	—	—
228	38	42	15	148	1	—	—	—	—
195	38	31	13	123	—	—	—	—	—
354	67	82	35	232	—	—	—	—	—
2,484	**797**	**372**	**158**	**1,010**	**2**	**—**	**—**	**—**	**—**
25	—	5	8	14	—	—	—	—	—
43	23	3	3	9	—	—	—	—	—
55	13	6	2	9	—	—	—	—	—
88	19	7	5	23	—	—	—	—	—
58	17	5	10	30	—	—	—	—	—
57	12	8	13	31	—	—	—	—	—
67	15	5	18	34	—	—	—	—	—
74	14	3	16	37	—	—	—	—	—
285	62	20	129	231	—	—	—	—	—
752	**175**	**62**	**204**	**418**	**—**	**—**	**—**	**—**	**—**
4	—	1	—	3	—	—	—	—	—
25	10	3	1	2	—	—	—	—	—
14	8	2	1	4	—	—	—	—	—
45	29	8	2	13	—	—	—	—	—
46	15	9	18	8	—	—	—	—	—
45	15	7	14	13	—	—	—	—	—
53	12	4	10	22	—	—	—	—	—
34	12	5	14	28	—	—	—	—	—
123	21	5	61	141	—	—	—	—	—
389	**122**	**44**	**121**	**234**	**—**	**—**	**—**	**—**	**—**

#Option Selected: No option—Straight life. Option 1—Cash refund. Option 2—100% Joint & Survivorship. Option 3—50% Joint & Survivorship. Option 4—100% Pop-Up. Option 5—50% Pop-Up. Option 6—Other % Joint & Survivorship. Option 7—Other % Pop-Up. Option 8—Fixed amount to Beneficiaries. Option 9—Widow's benefit (accidental disability) 50%

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Schedules of Average Benefit Payment Amounts

SCHEDULES OF AVERAGE BENEFIT PAYMENT AMOUNTS

EMPLOYEES

2001

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	560*	1,191	2,218	1,482
Annual Benefits	$1,610,278	$3,963,804	$11,520,730	$11,135,995
Avg. Monthly Benefit	$240	$277	$433	$626

* Includes 19 members who did not have service reported.

1999

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	621*	1,198	2,064	1,379
Annual Benefits	$1,579,858	$3,713,011	$9,799,710	$9,758,421
Avg. Monthly Benefit	$212	$258	$396	$590

* Includes 16 members who did not have service reported.

1997

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	508*	1,131	1,775	1,305
Annual Benefits	$1,124,799	$2,901,573	$7,403,767	$8,092,767
Avg. Monthly Benefit	$185	$214	$348	$517

* Includes 17 members who did not have service reported.

1995

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	477*	1,082	1,619	1,215
Annual Benefits	$909,794	$2,403,358	$5,994,383	$6,793,032
Avg. Monthly Benefit	$159	$185	$309	$466

* Includes 11 members who did not have service reported.

TEACHERS

2001

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	54*	132	630	674
Annual Benefits	$222,368	$526,185	$3,851,336	$6,106,854
Avg. Monthly Benefit	$343	$332	$509	$755

* Includes 14 members who did not have service reported.

1999

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	58*	138	624	661
Annual Benefits	$224,987	$513,560	$3,537,762	$5,617,830
Avg. Monthly Benefit	$323	$310	$472	$708

* Includes 12 members who did not have service reported.

1997

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	57*	140	548	630
Annual Benefits	$180,631	$426,864	$2,676,466	$4,658,727
Avg. Monthly Benefit	$264	$254	$407	$616

* Includes 11 members who did not have service reported.

1995

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	51*	147	520	629
Annual Benefits	$144,208	$380,494	$2,136,263	$3,990,777
Avg. Monthly Benefit	$236	$216	$342	$529

* Includes 6 members who did not have service reported.

2001

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
1,135	655	620	382	129	34	8,406
$12,014,838	$8,945,159	$11,142,144	$8,303,707	$2,697,708	$690,484	$72,024,847
$882	$1,138	$1,498	$1,811	$1,743	$1,692	$714

1999

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
988	590	570	361	125	32	7,928
$9,522,768	$7,472,894	$9,601,520	$7,208,456	$2,256,792	$587,964	$61,501,394
$803	$1,055	$1,404	$1,664	$1,505	$1,531	$646

1997

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
941	573	555	356	139	33	7,316
$7,960,802	$6,233,554	$8,443,032	$6,395,147	$2,169,857	$524,130	$51,249,428
$705	$907	$1,268	$1,497	$1,301	$1,324	$584

1995

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
852	549	518	338	145	35	6,830
$6,545,332	$5,439,064	$7,002,962	$5,500,902	$1,995,547	$442,440	$43,026,814
$640	$826	$1,127	$1,356	$1,147	$1,053	$525

2001

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
893	784	825	424	89	13	4,518
$11,992,815	$14,030,089	$18,567,637	$11,162,971	$2,224,227	$351,268	$69,035,750
$1,119	$1,491	$1,876	$2,194	$2,083	$2,252	$1,273

1999

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
852	724	738	383	92	19	4,289
$10,874,303	$12,457,317	$16,052,553	$9,604,336	$2,027,011	$390,970	$61,300,629
$1,064	$1,434	$1,813	$2,090	$1,836	$1,715	$1,191

1997

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
781	622	617	362	115	24	3,896
$8,953,020	$9,502,002	$12,155,987	$7,753,880	$2,176,905	$442,844	$48,927,326
$955	$1,273	$1,642	$1,785	$1,577	$1,538	$1,047

1995

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
718	523	522	334	129	34	3,607
$7,147,595	$6,895,001	$9,067,061	$5,926,742	$1,944,763	$527,757	$38,160,661
$830	$1,099	$1,447	$1,479	$1,256	$1,294	$882

SCHEDULES OF AVERAGE BENEFIT PAYMENT AMOUNTS

POLICE OFFICERS

2001

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	113*	102	188	155
Annual Benefits	$996,163	$1,513,767	$3,056,531	$3,062,168
Avg. Monthly Benefit	$735	$1,237	$1,355	$1,646

* Includes 28 members who did not have service reported.

1999

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	104*	91	172	138
Annual Benefits	$998,628	$1,299,420	$2,524,099	$2,624,209
Avg. Monthly Benefit	$800	$1,190	$1,223	$1,585

* Includes 24 members who did not have service reported.

1997

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	70*	86	144	129
Annual Benefits	$631,730	$1,163,340	$1,958,132	$2,166,636
Avg. Monthly Benefit	$752	$1,127	$1,133	$1,400

* Includes 6 members who did not have service reported.

1995

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	56*	79	129	115
Annual Benefits	$507,977	$1,030,681	$1,604,526	$1,766,595
Avg. Monthly Benefit	$756	$1,087	$1,037	$1,280

* Includes 1 member who did not have service reported.

FIREFIGHTERS

2001

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	25*	20	59	101
Annual Benefits	$221,619	$276,649	$891,670	$1,830,685
Avg. Monthly Benefit	$739	$1,153	$1,259	$1,510

* Includes 14 members who did not have service reported.

1999

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	19*	27	54	93
Annual Benefits	$151,462	$351,971	$751,848	$1,606,161
Avg. Monthly Benefit	$664	$1,086	$1,160	$1,439

* Includes 8 members who did not have service reported.

1997

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	19*	22	52	87
Annual Benefits	$111,377	$258,415	$678,311	$1,353,033
Avg. Monthly Benefit	$488	$979	$1,087	$1,296

* Includes 7 members who did not have service reported.

1995

Service	0 - 4 yrs.	5 - 9 yrs.	10 - 14 yrs.	15 - 19 yrs.
Total Retirees	17*	22	47	83
Annual Benefits	$72,237	$261,675	$583,368	$1,159,964
Avg. Monthly Benefit	$354	$991	$1,034	$1,165

* Includes 1 member who did not have service reported.

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	2001 35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
680	262	73	8	4	1	1,586
$18,387,201	$7,947,885	$2,782,670	$310,271	$204,734	$28,711	$38,290,101
$2,253	$2,528	$3,177	$3,232	$4,265	$0	$2,012

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	1999 35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
600	196	58	7	3	—	1,369
$15,169,104	$5,554,529	$2,006,955	$171,328	$141,829	—	$30,490,101
$2,107	$2,362	$2,884	$2,040	$3,940	—	$1,856

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	1997 35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
488	181	59	8	5	—	1,170
$10,956,910	$4,341,254	$1,813,002	$234,573	$184,659	—	$23,450,236
$1,871	$1,999	$2,561	$2,443	$3,078	—	$1,670

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	1995 35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
433	174	57	8	6	—	1,057
$8,737,269	$3,595,808	$1,525,723	$216,325	$175,218	—	$19,160,122
$1,682	$1,722	$2,231	$2,253	$2,434	—	$1,511

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	2001 35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
429	196	56	14	6	—	906
$9,448,407	$5,308,669	$1,827,349	$396,861	$220,267	—	$20,422,176
$1,835	$2,257	$2,719	$2,362	$3,059	—	$1,878

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	1999 35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
382	140	45	16	5	—	781
$7,719,756	$3,245,859	$1,374,635	$442,477	$142,558	—	$15,786,727
$1,684	$1,932	$2,546	$2,305	$2,376	—	$1,684

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	1997 35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
336	132	45	15	6	—	714
$5,852,602	$2,610,733	$1,194,908	$372,674	$194,973	—	$12,627,026
$1,452	$1,648	$2,213	$2,070	$2,708	—	$1,474

20 - 24 yrs.	25 - 29 yrs.	30 - 34 yrs.	1995 35 - 39 yrs.	40 - 44 yrs.	45 or more yrs.	Total
298	128	42	17	5	—	659
$4,521,502	$2,134,183	$972,389	$378,429	$181,127	—	$10,264,874
$1,264	$1,389	$1,929	$1,855	$3,019	—	$1,298

CLICK HERE TO RETURN TO TABLE OF CONTENTS

Listing of Participating Employers

STATE GOVERNMENT

Adjutant General's Office E, F
Administrative Services E
Agriculture E
Bank Commission E
Boards and Commissions E
Board of Accountancy E
Board of Electricians E
Board of Land & Tax Appeals E
Board of Pharmacy E
Board of Registration in Medicine E
Div. of Children & Youth E
Commissioner of Health and Welfare E
Corrections E, P
Cosmetology and Barbering Board E
Cultural Affairs E
Education E
Elderly and Adult Services E
Employment Security E
Environmental Services E
Executive Agencies E
Fish and Game Commission E, P
Glencliff Home for the Elderly E
Div. of Human Services E
Highway Safety E
Human Rights Commission E
Insurance E
Joint Board E
Judicial Council E
Justice E
Labor E
Laconia Developmental Services E
Legislative Branch E
Liquor Commission E, P
Mental Health E
New Hampshire Hospital E
New Hampshire Community Tech College System E
New Hampshire Office of Emergency Management E
New Hampshire Port Authority E
New Hampshire Retirement System E
New Hampshire Veterans Home E
Pari-Mutuel Commission E
Police Standards and Training E, P
Post Secondary Education Commission E
Public Employees Labor Relations Board E
Public Health E
Public Utilities Commission E
Real Estate Commission E
Resources and Economic Development E, F
Revenue Administration E
Safety E, P, F
Secretary of State E
Sweepstakes Commission E
Transportation E
Treasury E
Unified Court System E
Veterans Council E
Youth Development Center E

CITIES AND TOWNS (AND RELATED ENTITIES)

Allenstown 2E, P, F
Alstead P
Alton E, P
Amherst P, F
Andover P
Antrim E, P
Ashland E, P
Atkinson P
Auburn E, P
Baker Free Library E
Barnstead E, P, F
Barrington E, P
Bartlett P, F
BCEP Solid Waste District E
Bedford P, F
Belmont E, P, F
Bennington E, P
Berlin 2E, P, F
Bethlehem E, P
Boscawen E, P
Bow E, P, F
Bradford P
Brentwood E, P, F
Bridgewater P, F
Bristol E, P, F
Brookline E, P
Campton P
Campton-Thornton F
Canaan E, P
Candia P
Canterbury E, P
Carroll P, F
Center Harbor P
Central Hooksett Water Precinct E
Charlestown E, P
Chester E, P
Chesterfield E, P
Chichester P
Claremont E, P, F
Clarksville E
Colebrook E, P
Concord 2E, P, F
Conway E, P, F
Conway Village Fire District E
Cornish E
Danville P

KEY: E – Employees T – Teachers P – Police Officers F – Firefighters
Numbers before Key represent multiple groups.
SAU – School Administrative Unit

Deerfield E, P
Deering P
Derry 3E, P, F
Dover E, P, F
Dublin E, P, F
Dunbarton E, T, P
Durham E, P, F
East Derry Fire Precinct E, F
East Kingston E, P
Enfield E, P
Epping E, P, F
Epsom P, F
Exeter P, F
Farmington P
Fitzwilliam E, P
Francestown E
Franconia P
Franklin E, P, F
Freedom P
Fremont P
Gilford E, P, F
Gilmanton E, P, F
Goffstown E, P, F
Goffstown Village Water Precinct E
Gorham E, P
Goshen E, P
Grafton P
Grantham E, P
Greenfield E, P
Greenland E, P
Greenville E, P
Hampstead E, P, F
Hampton Falls P, F
Hampton E, P, F
Hancock P
Hanover E, P, F
Harrisville P
Haverhill E, P
Henniker E, P, F
Hillsborough P
Hinsdale P
Holderness E, P, F
Hollis E, P, F
Hooksett 2E, P, F
Hooksett Village Water Precinct E
Hopkinton E, P, F
Housing Authority of Salem E
Hudson E, P, F
Jackson E, P
Jaffrey P, F
Keene E, P, F
Kensington P
Kingston E, F, P
Laconia 3E, P, F
Laconia Waterworks E
Lakes Region Mutual Fire Aid E, F
Lancaster E, P
Langdon P
Lebanon E, P, F
Lee P
Lempster E
Lincoln E, P
Lisbon P
Litchfield E, P, F
Littleton 3E, P, F
Londonderry E, P, F
Loudon E, P
Lyme E, P
Lyndeborough P
Madison P
Manchester P, F
Marlborough E, P
Mason P
Meredith E, P, F
Merrimack P, F
Middleton P
Milford 2E, P, F
Milford Area Communication E
Milton F, P
Monroe E
Mont Vernon E, P
Moultonboro E, P, F
Nashua Airport Authority E
Nashua E, P, F
Nelson E
New Boston P
New Castle E, P
New Durham E, P
New England Interstate Water Pollution Control Commission E
New Hampton E, P
New Ipswich E, P
New London E, P, F
New London-Springfield Water Precinct E
Newbury P
Newfields P
Newington P, F
Newmarket E, P
Newport E, P, F
Newton E, P
New Hampshire Municipal Bond Bank E
North Conway Water Precinct E
North Conway F
North Hampton E, P, F
Northfield E, P
Northumberland E, P
Northwood E, P, F
Nottingham F, P
Orford E, P
Ossipee E, P
Pease Development Authority E
Pelham P, F
Pembroke P
Penacook-Boscawen WP E
Peterborough E, P, F

KEY: E – Employees T – Teachers P – Police Officers F – Firefighters
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SAU – School Administrative Unit

Pittsburg E, P
Pittsfield E, P
Plainfield E, P
Plaistow E, P, F
Plaistow Public Library E
Plymouth 2E, P, F
Plymouth Court Jurisdictional Association E
Portsmouth 2E, P, F
Raymond E, P, F
Rindge P, F
Rochester E, P, F
Rollinsford P
Rumney E, P
Rye E, P, F
Salem 2E, P, F
Salisbury E
Sanbornton E, P
Sandown E, P
Sandwich P
Seabrook P, F
Shelburne E
Somersworth P, F
South Hampton P
Southern NH Planning Commission E
Springfield P
Stark E
Stewartstown E
Strafford P
Stratham E, P
Sugar Hill E, P
Sunapee E, P
Sutton P
Swanzey P
SWNH District Fire Mutual Aid E, F
Tamworth P
Temple P
Thornton E, P
Tilton E, P
Tilton/Northfield F
Troy E, P
Troy Water/Sewer Department E
Tuftonboro E, P, F
Unity E
Wakefield E, P
Walpole E, P
Warner E, P
Warner Village Water District E
Washington E, P
Waterville Valley P
Weare E, P
Webster E, P
Weeks Public Library E
Wentworth P
Westmoreland E
Whitefield E, P
Wilmot E, P
Wilton P
Winchester E, P
Windham E, P, F
Wolfeboro E, P, F
Woodstock E, P
Woodsville E
Woodsville Fire District E

COUNTY GOVERNMENTS

Belknap County 2E, P
Carroll County E, P
Cheshire County E, P
Coos County 2E, P
Grafton County E, P
Hillsborough County E, P
Merrimack County E, P
Rockingham County E, P
Strafford County E, P
Sullivan County E, P

SCHOOL DISTRICTS

Allenstown School District 2T
Alton School District E, T
Amherst School District E, T
Andover School District E, T
Ashland School District E, T
Auburn School District E, T
Barnstead School District E, T
Barrington School District E, T
Bartlett School District E, T
Bath School District E, T
Bedford School District E, T
Berlin School District E, T
Bethlehem School District E, T
Bow School District 2E, T
Brentwood School District E, T
Brookline School District T
Campton School District E, T
Candia School District E, T
Chester School District E, T
Chesterfield School District T
Chichester School District E, T
Claremont School District E, T
Colebrook School District T
Concord School District E, T
Contoocook Valley Regional School District-SAU 1 E, T
Conway School District E, T
Cornish School District E, T
Croydon School District T
Deerfield School District T
Derry Cooperative School District E
Dover School District E, T
Dresden School District E, T
Dunbarton School District T
East Kingston School District E, T
Epping School District E, T
Epsom School District T
Errol School District T

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SAU – School Administrative Unit

Exeter Area School District E, T
Exeter Regional Co-Op School District E, T
Fall Mountain Regional School District E, T
Farmington School District E, T
Franconia School District E
Franklin School District E, T
Freedom School District E, T
Fremont School District E, T
Gilford School District E, T
Gilmanton School District E, T
Goffstown School District E, T
Gorham School District E, T
Goshen-Lempster Coop School District E, T
Governor Wentworth Regional School District E, T
Grantham School District T
Greenland School District E, T
Hampstead School District E, T
Hampton Falls School District E, T
Hampton School District E, T
Hanover School District E, T
Harrisville School District E, T
Haverhill Coop School District E, T
Henniker School District E, T
Hill School District T
Hillsboro-Deering School District E, T
Hinsdale School District E, T
Holderness School District E, T
Hollis School District E, T
Hollis/Brookline Coop School District E, T
Hooksett School District E, T
Hopkinton School District E, T
Hudson School District E, T
Inter-Lakes School District E, T
Jackson School District E, T
Jaffrey-Rindge School District E, T
John Stark Regional School District E, T
Kearsarge Regional School District E, T
Keene School District E, T
Kensington School District E, T
Laconia School District E, T
Lafayette Regional School District T
Landaff School District T
Lebanon School District E, T
Lincoln Woodstock Coop School District E, T
Lisbon Regional School District E, T
Litchfield School District E, T
Littleton School District E, T
Londonderry School District E, T
Lyme School District E, T
Lyndeborough School District T
Madison School District T
Manchester School District T
Marlborough School District E, T
Marlow School District T
Mascenic Regional School District E, T
Mascoma Valley Regional School District E, T
Merrimack School District E, T
Merrimack Valley School District E, T
Milan School District E, T
Milford School District E, T
Milton School District E, T
Monadnock Regional School District E, T
Monroe School District E, T
Mont Vernon School District E, T
Moultonboro School District T
Nashua School District T
Nelson School District T
New Boston School District E, T
New Castle School District E, T
Newfields School District T
Newfound Area School District E, T
Newington School District E, T
Newmarket School District E, T
Newport School District E, T
North Hampton School District E, T
Northumberland School District E, T
Northwood School District E, T
Nottingham School District E, T
Oyster River Coop School District E, T
Pelham School District E, T
Pembroke School District 3E, 3T
Pemi-Baker Regional School District E, T
Piermont School District E, T
Pittsburg School District T
Pittsfield School District E, T
Plainfield School District E, T
Plymouth School District E, T
Portsmouth School District - SAU 52 E, T
Profile School District E, T
Raymond School District E, T
Rivendell Interstate School District T
Rochester School District T
Rollinsford School District E, T
Rumney School District T
Rye School District E, T
Salem School District E, T
Sanborn Regional School District E, T
Seabrook School District E, T

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Shaker Regional School District E, T

Somersworth School District E, T

Souhegan Cooperative School District E, T

South Hampton School District E, T

Stark School District E, T

Stewartstown School District T

Stoddard School District E, T

Strafford School District E, T

Stratford School District E, T

Stratham School District E, T

Sunapee School District E, T

Tamworth School District E, T

Thornton School District E, T

Timberlane Regional School District E, T

University of New Hampshire—Plymouth State College E

Unity School District E, T

Wakefield School District E, T

Warren School District E, T

Washington School District E, T

Waterville Valley School District E, T

Weare School District T

Wentworth School District T

Westmoreland School District E, T

White Mountains Regional School District E, T

Wilton School District E, T

Wilton-Lyndeborough Coop School District E, T

Winchester School District E, T

Windham School District E, T

Winnacunnet School District E, T

Winnisquam Regional School District E, T

SCHOOL ADMINISTRATIVE UNITS

SAU 2 E, T

SAU 3 E

SAU 4 E

SAU 5 E

SAU 6 E

SAU 7 E, T

SAU 8 E

SAU 9 E, T

SAU 10 T

SAU 11 E

SAU 13 E

SAU 14 E

SAU 15 E

SAU 16 E, T

SAU 18 E, T

SAU 19 E, T

SAU 20 E

SAU 21 E, T

SAU 23 E, T

SAU 24 E, T

SAU 27 E

SAU 28 E

SAU 29 E, T

SAU 33 E

SAU 34 E

SAU 35 E, T

SAU 36 E

SAU 38 E, T

SAU 39 E

SAU 41 E

SAU 42 E

SAU 43 E, T

SAU 44 E, T

SAU 45 E

SAU 46 E

SAU 48 E, T

SAU 49 E

SAU 50 E

SAU 51 E, T

SAU 53 E, T

SAU 54 E

SAU 55 E

SAU 56 E, T

SAU 57 E

SAU 58 E

SAU 61 E

SAU 63 E, T

SAU 64 E, T

SAU 65 E

SAU 66 E

SAU 67 E

SAU 70 E

SAU 75 E

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