

Looking back to move forward

There's a lot of information out there regarding the New Hampshire Retirement System, some of it fact, some of it fiction. This document, along with others in the "NHRS ... Now You Know" series, is designed to provide you with straight talk about the retirement system.

The New Hampshire Retirement System may have marked its 50th birthday in 2017, but the assumptions used to fund the plan remain fresh.

Why is this important?

Every year, NHRS' independent actuary produces a valuation of the retirement system that projects future benefit payments and determines the present value of those benefits. Per state law, the valuation done in odd-numbered years is used to determine future employer contribution rates.

Given the long-term nature of pension benefits, the actuary calculates NHRS' funded ratio, unfunded liability, and employer contribution rates based on assumptions about many future events, such as the age when members will

retire, their rate of salary growth, how long they'll live after retirement, and how much the plan's investments will earn over time. These assumptions are based on detailed statistical models and adhere to national actuarial standards of practice. However, they are not facts; no one can predict future events with complete certainty.

When the assumptions don't match the actual experience, there can be an actuarial gain or loss. Put simply, gains reduce employer contribution rates, losses increase employer contribution rates.

A single set of assumptions will not be suitable indefinitely, which is why they should be carefully chosen and continually monitored. Continued use of outdated assumptions can lead to understating or overstating the cost of the plan. To ensure that actuarial assumptions remain well-founded, pension plans typically conduct an experience study every five years. The most recent NHRS experience study was based on the five years ending June 30, 2015, and was presented to the Board of Trustees in 2016. The next experience will be conducted following the close of fiscal year 2020.

While an experience study compares actual plan experience over a five-year period with the assumptions, it isn't just a look back; an experience study also takes long-term trends and projections into account. For instance, if payroll growth was larger or smaller than expected in a five-year period, it could be the result of short-term economic factors and it may not be prudent to assume that rate of payroll growth indefinitely. On the other hand, ongoing advances in health care

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mean it probably makes sense to continue to expect incremental increases in life expectancy.

One of the most important assumptions reviewed in every experience study is the assumed rate of investment return, which is what the Trustees believe the plan can realistically earn from its investments on an annual basis, when averaged over the long-term. This assumption is particularly important because, over time, earnings from investments account for a majority of revenues required to fund benefits. In addition to the experience study, the Board also receives input from the NHRS Independent Investment Committee, the retirement system's investment consultant, and other outside experts in considering this assumption.

When an experience study is completed, the actuary may recommend that the Board of Trustees modify some assumptions so that they track closer to actual plan experience and future expected experience. The Trustees have a legal obligation as fiduciaries to adopt actuarially sound assumptions. This regular review and, when appropriate, recalibration, of actuarial assumptions is necessary to ensure that the retirement system meets its long-term funding needs.