

The importance of having a plan

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, are designed to provide you with straight talk about the retirement system.

If you have heard anyone from NHRS give an update on the state of the retirement system in recent years, chances are you have heard the phrase, "There is a plan in place."

The plan in question is the long-term effort to address the retirement system's unfunded actuarial accrued liability (UAAL) of \$5.58 billion. This liability was created as a result of some short-sighted public policy decisions made more than 30 years ago – which have since been addressed through legislation – and exacerbated by global economic dips in 2001-02 and 2008-09 and the adoption of more conservative actuarial assumptions over the past decade.

The key components of NHRS' statutory funding plan include a fixed 30-year commitment to pay down the existing liability and the use of sound economic and demographic

actuarial assumptions, which are monitored and revised, as needed.

Of course, a lot of plans can look good in theory, but how can we be sure we are doing the right things and that NHRS' funding plan will be successful in reality? A simple look to the east reveals an encouraging picture.

Back in the 1980s, the state employee and teacher retirement plan administered by the Maine Public Employees Retirement System (Maine PERS) was in rough shape. Decades of underfunding had brought the plan down to a 28 percent funded ratio, far lower than NHRS ever experienced, even at the deepest trough of the great financial crisis of 2008-09.

Realizing the seriousness of their situation, policymakers in Maine committed to stabilizing the pension plan by increasing funding, and eventually adopting a constitutional amendment in 1995 that locked in a long-term strategy to bring Maine PERS back to fiscal health.

As demonstrated in the chart on the next page, the changes made in Maine bear a striking resemblance to the statutory and governance decisions made in New Hampshire more than a decade later:

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	Maine PERS	NHRS
Participants	Teachers & State Employees	Employees, Teachers, Police & Fire
Active Members	40,932	48,989
Retirees/Beneficiaries	39,535	45,330
Average Pension	\$25,618	\$21,625
State Constitution	Requires normal cost to be funded on a sound actuarial basis; new unfunded liabilities funded over 20 years (layered); any benefit improvements must be fully paid for in the year they are passed	Requires employer contribution rates be based upon sound actuarial valuation and practice and paid in full
Amortization of UAAL	31-year closed (1997-2028); Layered 20-year amortization of new gains and losses beginning in FY 97	30-year closed (2010-2039); Layered 20-year amortization of new gains and losses beginning in FY 19
Actuarial Method	Entry Age Normal	Entry Age Normal
Assumed rate of investment return	6.50%	6.75%
Funded Ratio at start of amortization period	51% (FY 96)	57.4% (FY10)
FY 2024 Funded Ratio	86.0%	68.6%

Notice the similarities?

Now, while the two pension systems are not identical, the challenges they faced were remarkably similar – and, more importantly, so are the solutions – with the primary difference being the timing of when the funding plans were developed. Maine got started on its path more than a decade before NHRS and it benefitted from some favorable stock market returns at the outset. New Hampshire, on the other hand, adopted its plan on the eve of the great financial crisis, which added additional financial stress right out of the starting gate. Since then, NHRS has navigated that rough start and has seen its funded ratio improve from 57.4% to 68.6%, an increase of 11% since 2010.

So, when you hear from NHRS that “there is plan in place,” you can take heart in knowing that our neighbors in the Pine Tree State began a strikingly similar journey well before we did. And – although there can be no guarantees – based on Maine’s experience, it looks like NHRS is headed in the right direction.