NHRS ... NOW YOU KNOW

Sustainable, by many definitions

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.

There has been considerable commentary on the sustainability of the New Hampshire Retirement System, with almost as many definitions of "sustainable" and "sustainability" as there are people using those terms.

By definition, something is sustainable if it can be maintained at a certain level, with few changes, for a long period. NHRS clearly meets that definition.

Digging a little deeper than the dictionary definition, here are some additional criteria pension plans must meet to be considered sustainable:

■ **A sustainable pension plan has a reasonable benefit design.** NHRS provides a modest benefit, $21,862 per year, on average, to 42,415 retirees or their beneficiaries. A very small number of retirees – frankly, the only ones you ever hear about in the news – receive significantly larger benefits due to their long service and the salaries they received in senior leadership positions. Due to recent changes to the pension plan – mostly affecting members hired in the past 20 years, particularly those hired after July 1, 2011 – future retirees can expect to receive even more modest benefits.

■ **A sustainable pension plan has a commitment from the plan sponsor to regularly fund the plan.** The New Hampshire Constitution (Part I, Article 36-a) requires NHRS Trustees to set actuarially sound employer contribution rates and requires employers to annually pay those rates in full. Employer rates are calculated every two years to reflect the cost of benefits as they accrue as well as pay down existing unfunded liabilities.

■ **A sustainable pension plan will have sufficient funds to pay future benefits as they come due.** As a result of a reporting standard from the Governmental Accounting Standards Board (GASB) introduced on 2014, NHRS is required to annually calculate whether there will be sufficient assets to pay benefits as they are due. The result of this calculation – performed by the NHRS consulting actuaries and audited by an independent, external audit firm – is that the retirement system is in a position to meet its obligations.

■ **A sustainable pension plan has a strong governance process.** NHRS is overseen by a Board of Trustees consisting of public members, employee members, and employer members. The retirement system also has an Independent Investment Committee (IIC) that manages investments based on the investment policy and asset allocation approved by the Board. By law, all IIC members must have "substantial experience in the field of institutional investment or finance." Trustees and IIC members are fiduciaries bound by law to act solely in the interest of the participants and beneficiaries of the pension plan.

By these additional measures, NHRS is, in fact, "sustainable."

But what about the retirement system's unfunded actuarial accrued liability (UAAL)? Doesn't that prove that NHRS is unsustainable?

In a word, no.

Having an unfunded liability does not mean that a pension plan is unable to pay the benefits for which it is presently obligated or to meet current cash flow requirements. Because of the long-term nature of pensions, funding gaps can be filled gradually, over time. There is an actuarially sound plan to pay down this liability over a closed period.

Think of the unfunded liability as a hole which needs to be filled. Unsustainable plans are those with a deficit which are either failing to fill in the hole, or continuing to dig it deeper. NHRS is not one of those plans.

One final thing to keep in mind is that sustainability isn't measured in weeks, months, or single years. Measuring the sustainability of a defined benefit pension plan such as NHRS in those increments is like weighing a baby every few hours to see if she's growing properly. Pension plans operate on a long time horizon. Members work 10, 20, 30, even 40 years, and draw a pension for many years after retirement.

If you only focus on a few points in time or take raw data out of context to assess sustainability, you're likely to see a distorted picture. Like a mortgage, the unfunded liability is paid down over time and the outstanding balance is not expected to decline materially for many years.

Related topic: Now You Know ... Demystifying 'unfunded liability':
https://www.nhrs.org/docs/default-source/now-you-know/now_you_know_uaal.pdf