

# NHRS

## New Hampshire Retirement System

A Component Unit Of The State Of New Hampshire



## Summary Annual Financial Report

For The Fiscal Year Ended

**June 30, 2010**





# NHRS

New Hampshire Retirement System

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December 29, 2010

To the Members of the New Hampshire Retirement System:

On behalf of the Board of Trustees of the New Hampshire Retirement System (NHRS), I am pleased to present NHRS' Summary Annual Financial Report for the fiscal year ended June 30, 2010. This report provides important information describing the financial condition of both the Pension Plan and the Other Post Employment Benefit (OPEB) Plans. It also contains information describing various changes that occurred during Fiscal Year 2010, some significant changes since then, and challenges that lie ahead.

Investment returns during the twelve months that ended June 30, 2010, benefited from the economic rebound that began in mid-2009, as well as the new committee structure for investment decisions, and the integration of a new Director of Investments. The economy continued to face uncertainties, however, caused by high unemployment, restricted spending by consumers and businesses, and ongoing weakness in housing markets and in the banking sector. In response, the Federal Reserve maintained interest rate targets near zero percent, and the federal government continued programs to support businesses, banks, and the public. Against this backdrop, the Retirement System's investment program produced a 12.9% return for Fiscal Year 2010 and the Retirement System's assets were \$4.9 billion at June 30, 2010, an increase of \$437 million over the previous fiscal year.

The investment returns exceeded NHRS's assumed rate of return of 8.5 %, and also exceeded its custom benchmark, which returned 11.7%. The benchmark is comprised of major market indices weighted in proportion to the Retirement System's asset allocation. The investment program's return was primarily driven by the performance of domestic equity (+15.5%), fixed income (+13.6%), and international equity (+12.2%) portfolios. The asset allocation is also a critical factor in determining returns. The Board and the Independent Investment Committee worked with their consultants and staff reviewing, and changing as appropriate, asset allocation, specific investments, and strategies and policies. Because returns on investments are an important source of funds with which the Retirement System pays future benefits, NHRS maintains a long-term investment horizon. In addition to the information on investments contained in this report, a separate report, The Comprehensive Annual Investment Report for Fiscal Year 2010, approved by the Independent Investment Committee, provides detailed information on the investment activities of NHRS.

Despite the strong investment returns in Fiscal Year 2010, the funding status of the pension fund remained about the same, but the funding status of the OPEB plans dropped significantly. Funding status is measured by comparing the net assets available to pay benefits to benefits owed now and in the future. The resulting measurement is called the funded ratio. At the close of the fiscal year, the funded ratio of the Pension Plan stood at 58.5% and the OPEB Plans at 5.6%, versus 58.3% and 26.3% in the previous year, respectively. The overall poor funding status of the Retirement System reflects both the dramatic drop in markets during the 2008 and 2009 financial and economic crises, as well as policy decisions made during past boards and past legislatures regarding actuarial methods and assumptions, employer contributions, assumed rate of return, and the diversion of investment gains to fund other benefits.

Improving the funding status of the Retirement System remains a top priority for the Board. Using the results of Fiscal Year 2010, the System's actuaries are performing an experience study which analyzes how the assumptions built into the actuarial models compare to actual experience. The Board, in consultation with its consultants and Staff, will establish any changes to these assumptions, including wage inflation, mortality tables, loading factors, and the assumed rate of return on investments. Any changes in the assumptions will be included in the FY 2011 actuarial valuation, and will be utilized in setting employer rates beginning for Fiscal Year 2014.

Changes made in the past four years, including higher employer rates designed to recoup the unfunded accrued actuarial liability over a 30-year period, have put NHRS on a path to financial health. But with significant market losses still needing to be overcome, and the need for the Board to consider lowering the assumed rate of return, which if adopted would increase contributions, additional substantial increases in employer rates are more likely than not for several more cycles.

Because the OPEB plans are essentially pay-as-you-go, they do not, for the most part, have substantial assets set aside for future funding. Revised calculations to reflect this fact significantly increased the estimates of future OPEB costs, and thus the funding ratio for the OPEB plans have dropped dramatically for FY 2010. Further, NHRS successfully settled with the IRS on the OPEB issues. That required, however, transferring \$89 million out of the Group II medical subsidy subtrust into a pension fund, thus creating an even more dramatic reduction in the funding ratio for the Group II OPEB Plan. The NHRS continues to evaluate the implications of the OPEB funding status and plan.

Fiscal Year 2010 marked the continued implementation of reforms designed to strengthen the governance and long-term stability of the Retirement System. The Independent Investment Committee, which was established effective January 1, 2009, continued to bring additional expertise to the investment process for the benefit of our members. The Committee is charged with investing in accordance with policies established by the Board and making recommendations to the Board regarding asset allocation and investment consultants. The Audit Committee develops and monitors an aggressive auditing schedule to ensure processes are improved. The Benefits Committee has tackled a number of complicated policy issues to develop recommendations to the Board for improved policies. A new Director of Investments was fully integrated into the investment process during the fiscal year, and new senior management for Member Benefits and Finance have been or are soon to be added to the management. The Board will continue to monitor organizational structure and process improvements.

NHRS is committed to leveraging technology to provide enhanced service for our members and retirees. A big step in that direction occurred in July when “My Account” went live on [www.nhrs.org](http://www.nhrs.org). This new feature allows members and individuals in receipt of a pension to review secure, personal account information at their convenience. Further enhancements to the website are in the works. Following a detailed audit, NHRS is actively evaluating its IT infrastructure and services to ensure it can handle security, efficiency, and future growth.

The financial upheaval of recent years has put public pensions around the world under a microscope. NHRS is no exception. The Board and Retirement System Staff are committed to supporting this public debate by providing factual information concerning the operation and financing of the System, and the laws, rules, policies and procedures governing it. Although no significant legislation affecting the retirement system was approved in 2010, activities continue in the Legislature to analyze the Retirement System’s benefit structure and financing, and over a dozen legislative titles addressing retirement issues have been requested for 2011. We expect an active 2011 legislative session and NHRS will provide data and analysis to the Legislature as it considers these issues.

Three new members will join the Board in the near future to replace Debra Hackett, a teacher member who stepped down in September, and both Representative Ricia McMahon and Senator Harold Janeway, who will not be returning to the Legislature. The Board is grateful for their dedicated efforts.

As NHRS works to strengthen its operations, performance, services, and financial health, I would like to thank my fellow Board members and the Retirement System Staff for their efforts during the past year. We have made progress toward implementing the necessary changes to support the long-term stability of NHRS, but significant challenges lie ahead. The Board and the Staff are committed to meeting these challenges head-on and fulfilling our fiduciary responsibility to members and their beneficiaries.

Sincerely,



Dr. Lisa K. Shapiro  
*Chair of the Board of Trustees*  
New Hampshire Retirement System



## Legislative Changes

Legislative changes enacted during the fiscal year 2010 legislative session are as follows:

- Extended the effective date from July 1, 2010 to July 1, 2011 of 2008 legislation (Chapter 300, Laws of 2008) which created a so-called “anti-spiking” provision through the enactment of a special 125% employer assessment. A legislative study commission will continue to evaluate proposals for the assessment methodology.
- Effective July 1, 2010, granted a 1.5% COLA to be added to the base pension, on the first \$30,000 of pension benefits to all retirees and beneficiaries who had been retired for at least 12 months by July 1, 2010. In addition, two additional lump sum temporary allowances were provided as follows:
  - Only for the fiscal year beginning July 1, 2010, a supplemental allowance of \$1,000 for any retired member or beneficiary who had been retired at least 12 months whose annual retirement is based on at least 15 years of service and is \$20,000 or less annually;
  - Only for the fiscal year beginning July 1, 2010, a supplemental allowance of \$500 for any retired member or beneficiary who retired prior to January 1, 1993.

## Financial Highlights

- Net assets increased by \$437.1 million (9.8%) from the prior year’s net asset balance. By comparison, the net asset balance for fiscal year 2009 decreased by \$1,135.8 million (20.3%) from the fiscal year 2008 net asset balance.
- There was a net investment gain during fiscal year 2010 of \$568.3 million compared to net investment loss during fiscal year 2009 of \$995.2 million. The net investment gain for fiscal year 2010 reflects a time-weighted return for the total fund during the year of 12.9% compared to a time-weighted investment return of –18.1% for the fiscal year ended June 30, 2009.
- Employer contributions for fiscal year 2010 increased 15.6% to \$302.2 million compared with employer contributions in fiscal year 2009 of \$261.5. The increase in employer contributions in fiscal year 2010 was primarily due to increased employer contribution rates.
- Member contributions were \$149.5 million in fiscal year 2010, an increase of 4.9% over fiscal year 2009 member contributions of \$142.5 million. Member contribution rates remained the same for fiscal year 2010, except for newly hired state employees who paid a higher rate. The increase in member contributions in fiscal year 2010 is primarily due to higher reported compensation.
- Benefits paid during fiscal year 2010 were \$550.0 million, an increase of 7.8% over the benefits paid in fiscal year 2009 of \$510.0 million. The increase in benefits paid in fiscal year 2010 is primarily due to an increase in the number of retirees, increased average benefit levels for those new retirees and temporary supplemental allowances granted to retirees through legislative action.
- There were \$107.0 million of net asset transfers in fiscal year 2010 compared with no net asset transfers in fiscal year 2009. The net asset transfers reflects an \$89.5 million transfer of Police and Fire-fighter OPEB Plan assets to Special Account assets to address a necessary correction under the NHRS’s Voluntary Compliance Program with the Internal Revenue Service. There was an additional \$17.5 million net asset transfer between the State Employee OPEB Plan and the Political Subdivision Employee OPEB Plan eliminating the State Employee OPEB Plan deficit balance in accordance with legislation enacted in the 2009 legislative session.

## Summary Comparative Statements of Plan Net Assets — Combined Pension and OPEB Plans

(in millions)

	As of June 30, 2010	As of June 30, 2009	Amount Increase (Decrease)	% Increase (Decrease)
Cash	\$ 7.9	\$ 12.1	(\$ 4.2)	(34.7%)
Receivables	156.0	156.2	( 0.2)	( 0.1%)
Investments	4,840.7	4,400.3	440.4	10.0%
Cash Collateral on Securities Lending	471.1	301.1	170.0	56.5%
Other Assets	0.6	2.0	( 1.4)	(70.0%)
<b>Total Assets</b>	<b>\$5,476.3</b>	<b>\$4,871.7</b>	<b>\$604.6</b>	<b>12.4%</b>
Cash Collateral on Securities Lending	471.1	301.1	170.0	56.5%
Other Liabilities	106.9	109.4	( 2.5)	( 2.3%)
<b>Total Liabilities</b>	<b>\$ 578.0</b>	<b>\$ 410.5</b>	<b>\$167.5</b>	<b>40.8%</b>
<b>Net Assets Held in Trust for Benefits</b>	<b>\$4,898.3</b>	<b>\$4,461.2</b>	<b>\$437.1</b>	<b>9.8%</b>

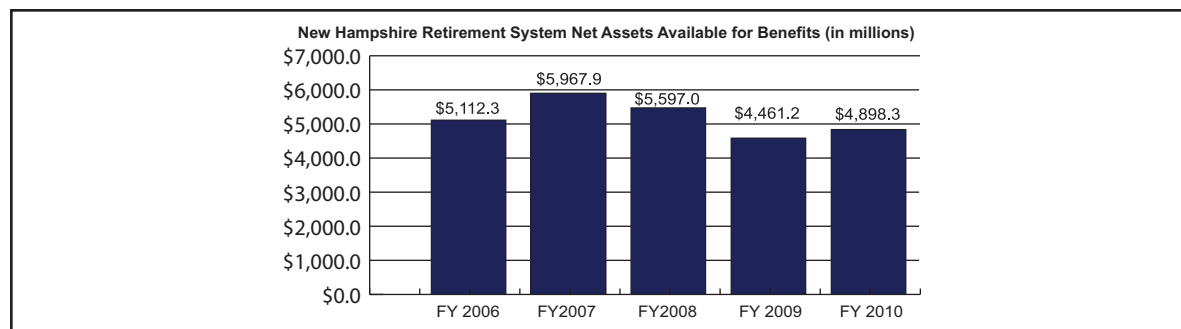
The Statements of Plan Net Assets provides a summary of what NHRS owns (assets) and what it owes (liabilities) as of the end of the fiscal year.

## Summary Comparative Statements of Changes in Plan Net Assets — Combined Pension and OPEB Plans

(in millions)

	As of June 30, 2010	As of June 30, 2009	Amount Increase (Decrease)	% Increase (Decrease)
<b>ADDITIONS:</b>				
Employer Contributions	\$ 302.2	\$ 261.5	\$ 40.7	15.6%
Member Contributions	149.5	142.5	7.0	4.9%
Net Investment Income (Loss)	568.3	( 995.2)	1,563.5	(157.1%)
Net Asset Transfers	107.0	—	107.0	100.0%
Other Income	( 1.3)	1.6	( 2.9)	(181.3%)
<b>Total Additions to Plan Net Assets</b>	<b>\$1,125.7</b>	<b>(\$ 589.6)</b>	<b>\$1,715.3</b>	<b>(290.9%)</b>
<b>DEDUCTIONS:</b>				
Benefits Paid	\$ 550.0	\$ 510.0	\$ 40.0	7.8%
Refunds of Contributions	21.9	24.2	( 2.3)	( 9.5%)
Net Asset Transfers	107.0	—	107.0	100.0%
Administrative Expense	6.6	7.2	( 0.6)	( 8.3%)
Other Deductions	3.1	4.8	( 1.7)	( 35.4%)
<b>Total Deductions from Plan Net Assets</b>	<b>\$ 688.6</b>	<b>\$ 546.2</b>	<b>\$ 142.4</b>	<b>26.1%</b>
<b>Total Changes in Plan Net Assets</b>	<b>\$ 437.1</b>	<b>(\$1,135.8)</b>	<b>\$1,572.9</b>	<b>(138.5%)</b>

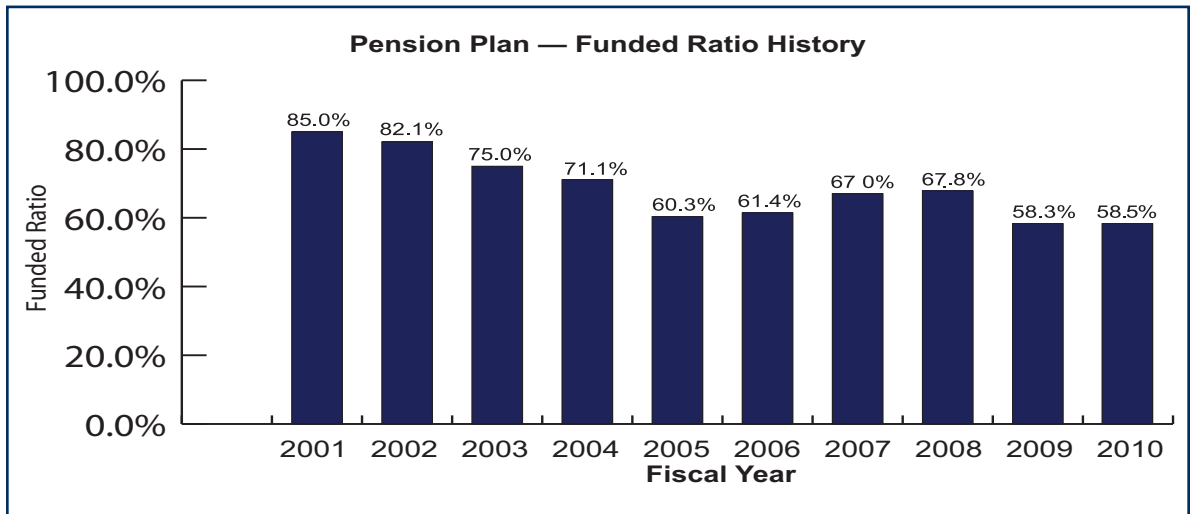
The Statements of Changes in Plan Net Assets provides a summary of the flow of money into (additions) and out of the fund (deductions) throughout the fiscal year.



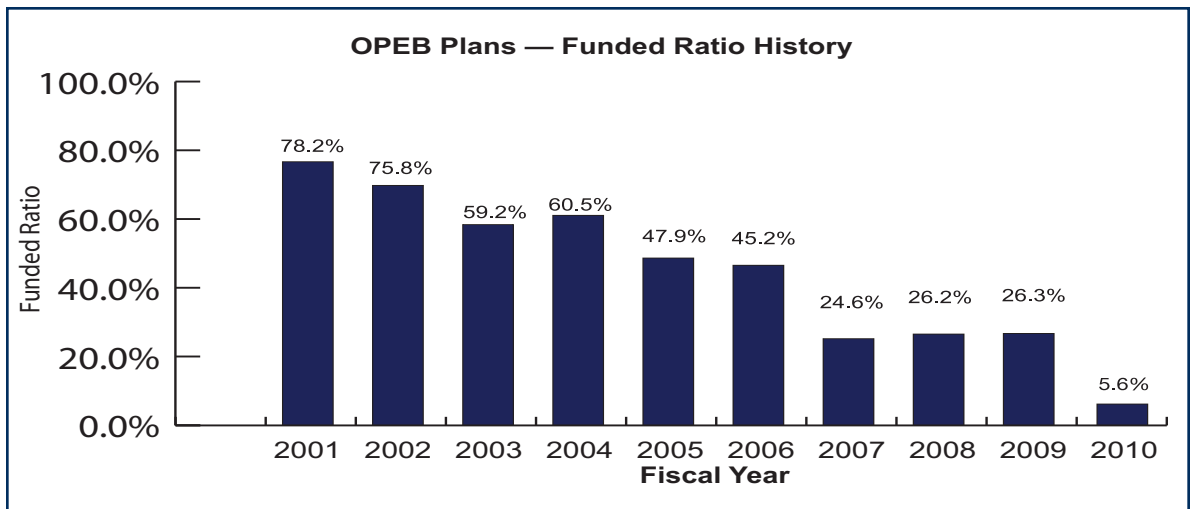
## Funding Progress

The primary measure of a benefit plan’s progress is its funded status that compares the assets available to the benefits that must be paid. In order to ensure that your retirement benefits are available to you, the actuary is able to compare the Plans’ assets against what the Plans owe now and in the future. This measure is called the plan funded ratio. It is a long-term process and it is important to keep in mind that all benefits are not due and payable at once.

- Funded ratios shown below for fiscal years prior to 2007 were calculated using a different actuarial method and therefore are not comparable on a consistent basis.
- The actuarial accrued liability for the Pension Plan was \$8.954 billion at June 30, 2010.
- The actuarial value of assets available to pay pension benefits was \$5.234 billion.
- As a result, the Pension Plan funded ratio was 58.5%.



- Funded ratios shown below for fiscal years prior to 2007 were calculated using a different actuarial method and therefore are not comparable on a consistent basis.
- The actuarial accrued liability for the OPEB Plans was \$1,034 million at June 30, 2010.
- The actuarial value of assets available to pay OPEB benefits was \$58 million.
- As a result, the OPEB Plans’ funded ratio was 5.6%.



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## Investment Summary

Each fiscal year, the NHRS produces a Comprehensive Annual Investment Report (CAIR) with appendices providing additional information such as investment commentary and summary reports; the opinion letter of the actuary regarding the assumed rate of return; as well as governance documents including the investment philosophy and related policies. This report is designed to comply with the provisions of the Revised Statutes Annotated (“RSA”) 100-A:15, VII of the State of New Hampshire. The full report, including all appendices, is available on the NHRS website ([www.nhrs.org](http://www.nhrs.org)).

Fiscal year 2010 marked the first full reporting period for which the Independent Investment Committee conducted oversight and management of the investment program. Prior to January 1, 2009, the Board of Trustees served as the NHRS Investment Committee. On that date, the Independent Investment Committee assumed its responsibilities in accordance with the provisions of RSA 100-A:14-b. The Committee is responsible for investing in accordance with policies established by the Board; making recommendations to the Board regarding investment consultants, asset allocation, and other policy matters; selecting investment managers, agents, and custodial banks; and reviewing performance.

## Investment Philosophy

Consistent with statutory requirements, the Committee developed and adopted a philosophy statement. The NHRS Investment Philosophy is included in Appendix D of the CAIR. Among other things, the Investment Philosophy describes the System’s Investment Objectives; Portfolio Structure and Implementation; and Performance Measurement.

## Investment Results

The twelve months ending June 30, 2010 marked the beginning of a slow but unsteady recovery in the economy. The consequences of the bursting of the housing bubble and the near collapse of the credit markets resulted in a significant reduction of consumer confidence. Subdued demand left U.S. companies with very little reason to increase payrolls or capital spending. Similar conditions prevailed in most of the economies of the developed nations. Federal stimulus programs and emergency measures no doubt pulled the U.S. economy and the capital markets back from the brink, but had only a modest effect on the growth of the U.S. economy. Furthermore, aggressive quantitative monetary easing and the sheer size of the stimulus programs raised fears of long-term inflation even though deflation remains a real possibility. The Federal Reserve Bank maintained short-term interest rate targets at minimal levels. The federal government continued to introduce and implement programs to support businesses, banks, and the public. Governments around the world were beset by concerns over potential default on sovereign debt, continued weakness in the banking sector, and civil protests caused by announcements of austerity measures.

The market recovery that began in the spring of 2009 and continued through the summer months of 2009 generated strong gains for the first 3 months of the fiscal year. The gains moderated in the second and third quarters and turned negative in the fourth quarter as it became evident that the recovery was too anemic to generate meaningful job growth. The huge federal deficits limited the will and the ability of the federal government to take further actions to spur growth.

Against this backdrop, the NHRS investment program produced a 12.9% net-of-fees return for fiscal year 2010. This was a welcome relief from a decline of 18.1% the previous fiscal year, but left us short of a full recovery. The return for fiscal year 2010 was primarily driven by across the board strength in the domestic equity and fixed income portfolios. The following table summarizes performance over various time periods relative to the asset-class benchmarks. Gross returns (before fees are deducted) compared to the universe places our results in the middle of the field over the past 1, 3 and 5-year periods, but in the bottom quartile over the past decade. Results for last year relative to our own bench-

marks were positive for the fund as a whole and for all but one of the asset classes (global equity). However, with the exception of fixed income, the fund fell short of its asset class benchmarks over the 3, 5 and 10-year periods.

Performance returns are calculated on a net-of-fees time-weighted rate of return basis.

<b>Annualized Investment Returns for the period ended June 30, 2010</b>					
<b>Asset Class</b>	<b>Weight 6/30/10</b>	<b>Fiscal Year 2010</b>	<b>3 Year</b>	<b>5 Year</b>	<b>10 Year</b>
Total NHRS Fund (Gross Returns)	100.0%	13.2%	-3.8%	2.7%	2.6%
ICC Public Fund Universe Ranking <sup>1</sup>		47	53	48	76
Total NHRS Fund (Net Returns)	100.0%	12.9%	-4.1%	2.4%	2.3%
Total Fund Custom Index		11.7%	-3.8%	2.6%	2.8%
Domestic Equity	42.5%	15.5%	-10.6%	-1.5%	-1.6%
Total Domestic Equity Blended Benchmark <sup>2</sup>		15.7%	-9.5%	-0.5%	-1.2%
International Equity	14.3%	12.2%	-9.4%	3.6%	0.9%
Total International Equity Blended Benchmark <sup>2</sup>		10.4%	-10.7%	3.4%	1.6%
Global Equity	5.3%	9.0%	-	-	-
MSCI ACWI		11.8%	-	-	-
Fixed Income	30.6%	13.6%	8.7%	6.6%	7.9%
Total Fixed Income Blended Benchmark <sup>2</sup>		10.6%	7.2%	5.5%	6.6%
Real Estate	5.1%	1.8%	-9.0%	1.6%	6.9%
Total Real Estate Blended Benchmark <sup>2</sup>		-1.0%	-4.5%	3.9%	7.2%
Alternative Investments	1.9%	8.3%	-12.4%	-3.8%	-6.4%
Consumer Price Index + 5% <sup>2</sup>		6.2%	6.6%	7.4%	7.4%
Cash Equivalents	0.3%	0.2%	1.9%	3.0%	2.9%
Cash Index		0.2%	1.6%	2.8%	2.7%

<sup>1</sup>The Independent Consultants Cooperative Public Fund Universe represents more than 150 public fund observations. The rankings are in percentile terms on a scale from 1 as the highest score to 100 as the lowest score.

<sup>2</sup>In a dynamic market, strategies and objectives evolve over time. Consequently, these benchmarks are blended due to historical investment strategy decisions. Detailed descriptions of the benchmarks above are available by contacting NHRS.

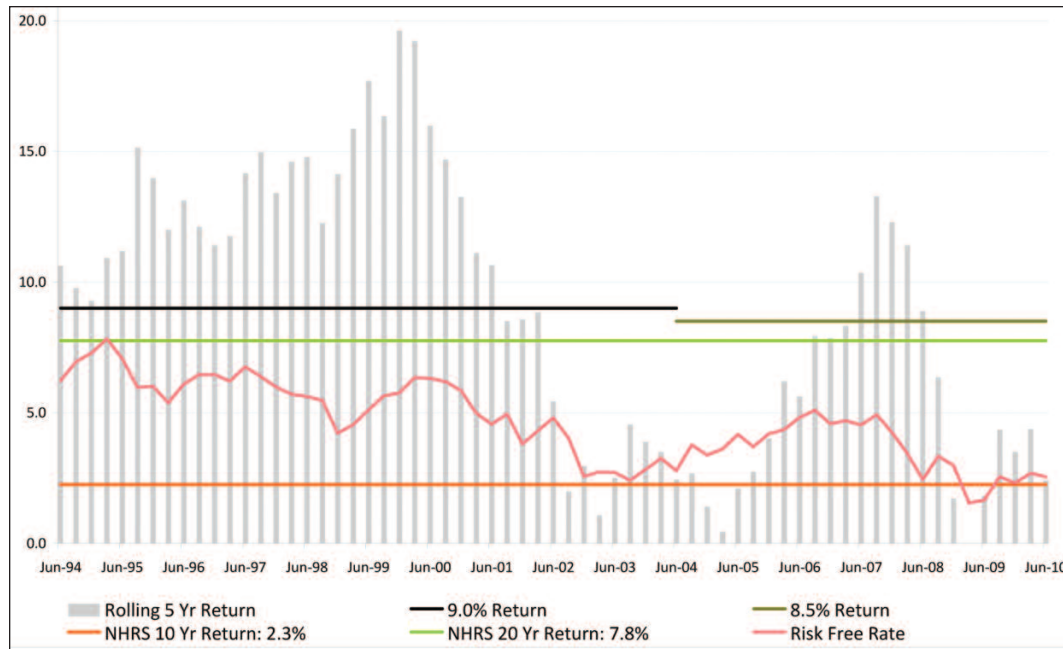
The chart below shows a history, over 20 years, of the performance of the Total NHRS Fund over rolling five-year periods. Rolling five-year returns are consistent with the five-year smoothing of assets employed in the actuarial valuation used to determine the required employer contribution rates. The purpose of using five-year smoothing is to dampen the volatility of the employer contribution rates that would otherwise result from large year-to-year market fluctuations. That is why the peaks and valleys shown on the chart lag considerably the annual market changes. The actuarial valuation is completed every other year and determines the employer contribution rates for the subsequent two fiscal years. For example, the actuarial valuation of the Retirement System's assets and liabilities as of June 30, 2009, was used by the Board of Trustees to certify the employer contribution rates for the fiscal years ending June 30, 2012 and June 30, 2013.

It is important to note that these rates of return need to be considered within the context of historical gain sharing on the assets of the NHRS. Until June 30, 2006 returns in excess of the actuarial rate of return plus 50 basis points were transferred to the Special Account and were used to support extra benefits for members. Those transfers totaled approximately \$900 million substantially reducing the ability of the NHRS to cushion significant market declines such as those in 2000 and 2009. The 10-year and 20-year annualized returns for the Total NHRS Fund are shown in the following chart. In addition, the chart contains the current actuarial rate of return of 8.5% and the prior rate of 9.0%.

Additional information regarding the investment program is detailed in Appendix A of the full report.



### Performance History of the New Hampshire Retirement System



## Annual Investment Policy Statement

The NHRS Statement of Investment Policy was established by the NHRS Board to provide governance and oversight of the pension fund assets. Highlights of the Statement of Investment Policy, which is presented in Appendix D of the full report, include:

- Description of the roles and responsibilities of the Board, the Investment Committee, NHRS Staff, and the System's service providers
- Detail regarding various considerations related to the oversight of investments, including the selection of service providers
- Establishment of the program's asset-allocation policy
- Specification of asset class performance measurement and monitoring policy

The Board sets the assumed rate of return based on the recommendations of the System's actuary. A written opinion letter on this subject is included in the full report as Appendix B. The net-of-fee return of 2.3% over the past decade fell far short of the current 8.5% assumed rate of return. The 20-year annualized, net-of-fee return of 7.8% comes closer to meeting this objective in the absence of gain sharing. To determine future funding requirements, the actuary retained by the NHRS Board will perform a 5-year experience study following the June 30, 2010 actuarial valuation. The recent national trend has been for public pension plans to lower the assumed rate of return. U.S. Treasury Notes, considered the safest investments and the benchmark against which other fixed income securities are priced, yield 2.7% and 4.0% for 10-year and 30-year maturities, respectively. While such low rates provide needed support for the economy, they simply do not provide a sufficient return for funds such as ours to meet long-term obligations without exposing the fund to unacceptable risk.

## Governance, Benchmarks and Measurement of Outcomes

As previously mentioned, the management and administration of the pension trust is a complex effort involving multiple stakeholders with distinct roles and responsibilities as described in the Statement of Investment Policy and in statute. At each monthly meeting of the Board or Committee, status reports are provided regarding the outcomes of various investment initiatives. Additionally, performance is

reviewed versus benchmarks at the manager-level, asset-class level, and portfolio-level on a monthly or quarterly basis, as appropriate, over various time-periods since the inception of a particular investment mandate or strategy to continually evaluate the portfolio. An overview of stakeholder functions and interactions is outlined in the following table.

<b>Level</b>	<b>Policy</b>	<b>Strategy</b>	<b>Implementation</b>
Board of Trustees	Approve		
Investment Committee	Recommend	Approve	
NHRS Investment Staff	Recommend	Recommend	Manage
Consultants	Recommend	Recommend	

Additional discussions of the mandates of these stakeholders are located in the CAIR, specifically, in the Investment Committee Charter and the Board of Trustees Charter, in Appendix C and in the Statement of Investment Policy in Appendix D.

## Overview of Significant Investment Committee Initiatives to Date

The investment program has been enhanced through the following major initiatives:

- Establishing the Investment Committee Charter and the Investment Philosophy, and updating related governing policies.
- Conducting an Asset Liability Modeling Study in conjunction with the System’s investment consultant, NEPC, LLC which resulted in recommendations to the Board of Trustees on revised asset-allocation targets and ranges.
- Reviewing the long-term performance of all investment managers against their respective benchmarks to determine if they meet the Committee’s expectations and evaluating prospective manager candidates, as appropriate. The review was focused on where the opportunities for active management had the highest potential for exceeding the benchmark, net of fees.
- Identifying replacements for seven investment firms, including the establishment of an S&P 500 index portfolio and four new active investment managers. The S&P 500 is an efficient means to gain broad large-cap market exposure at minimal cost. The active management of the small-cap equities has the greater expectation of adding value over the benchmark, net of fees.
- Implementing the first steps in a complete review and restructuring of the alternative investments program.
- Reducing risk by decreasing exposure to the lending of securities in the investment program and transitioning out of commingled index funds which participated in securities lending. As of early 2011, NHRS will no longer participate in a securities lending program.
- Migrating investment data to a central book of record platform which will serve as a common recordkeeping system for assets held in custody on behalf of the NHRS (equities, fixed income, and cash accounts) as well as those assets held in custody by managers or general partners (real estate and alternative investments).
- Adopting an annual real estate manager investment plan and initiating a transition from existing direct property holdings to a more diversified program of real estate funds.

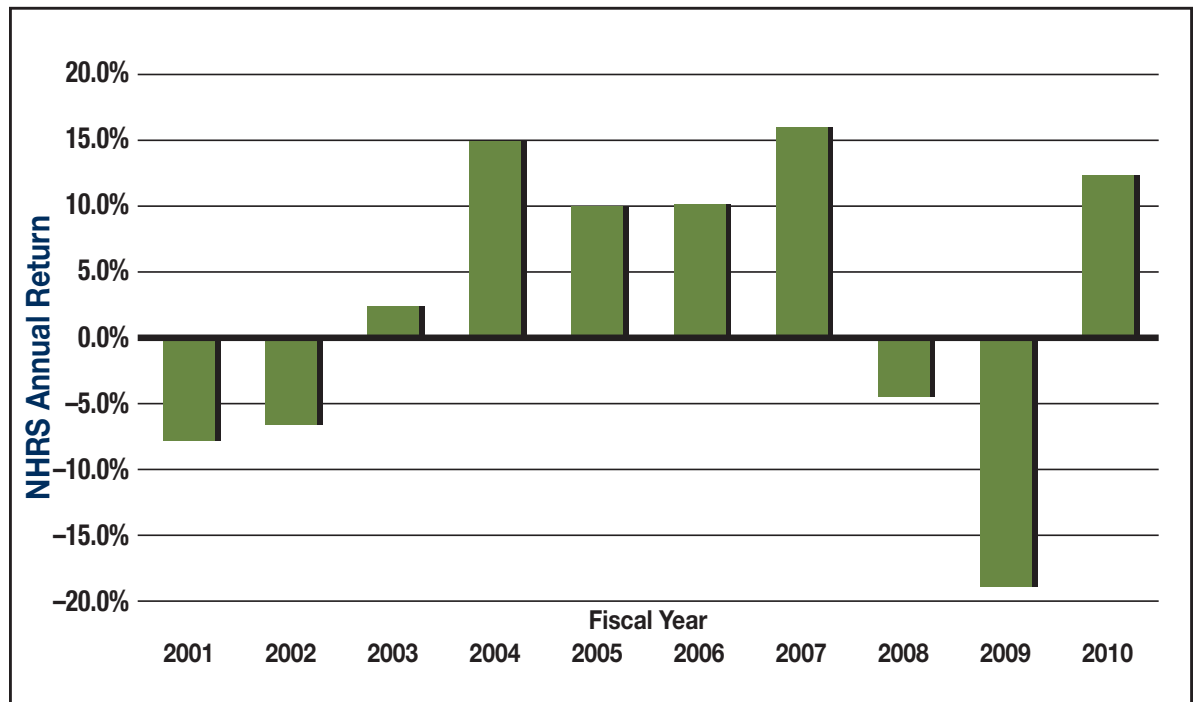
## Investment Performance

The results of the Plan’s investment program for the fiscal year ended June 30, 2010 are as follows:

- For fiscal year 2010, the total fund investment return of 12.9% outperformed the total fund custom benchmark of 11.7% by 120 basis points.
- Positive returns were experienced in all asset classes: domestic equity (15.5%), international equity (12.2%), global equity (9.0%), fixed income (13.6%), alternative investments (8.3%), and real estate (1.8%).
- Investment return is reported net of investment expenses and is measured against a total fund custom benchmark. The total fund custom benchmark consists of major market indices in proportion to the Plan’s asset allocation policy.

	Current Year 2010	Annualized		
		3 year	5 Year	10 Year
Total NHRS Fund	12.9%	-4.1%	2.4%	2.3%
Total Fund Custom Index	11.7%	-3.8%	2.6%	2.8%

Ten Year History of Time-Weighted Total NHRS Fund Annual Returns

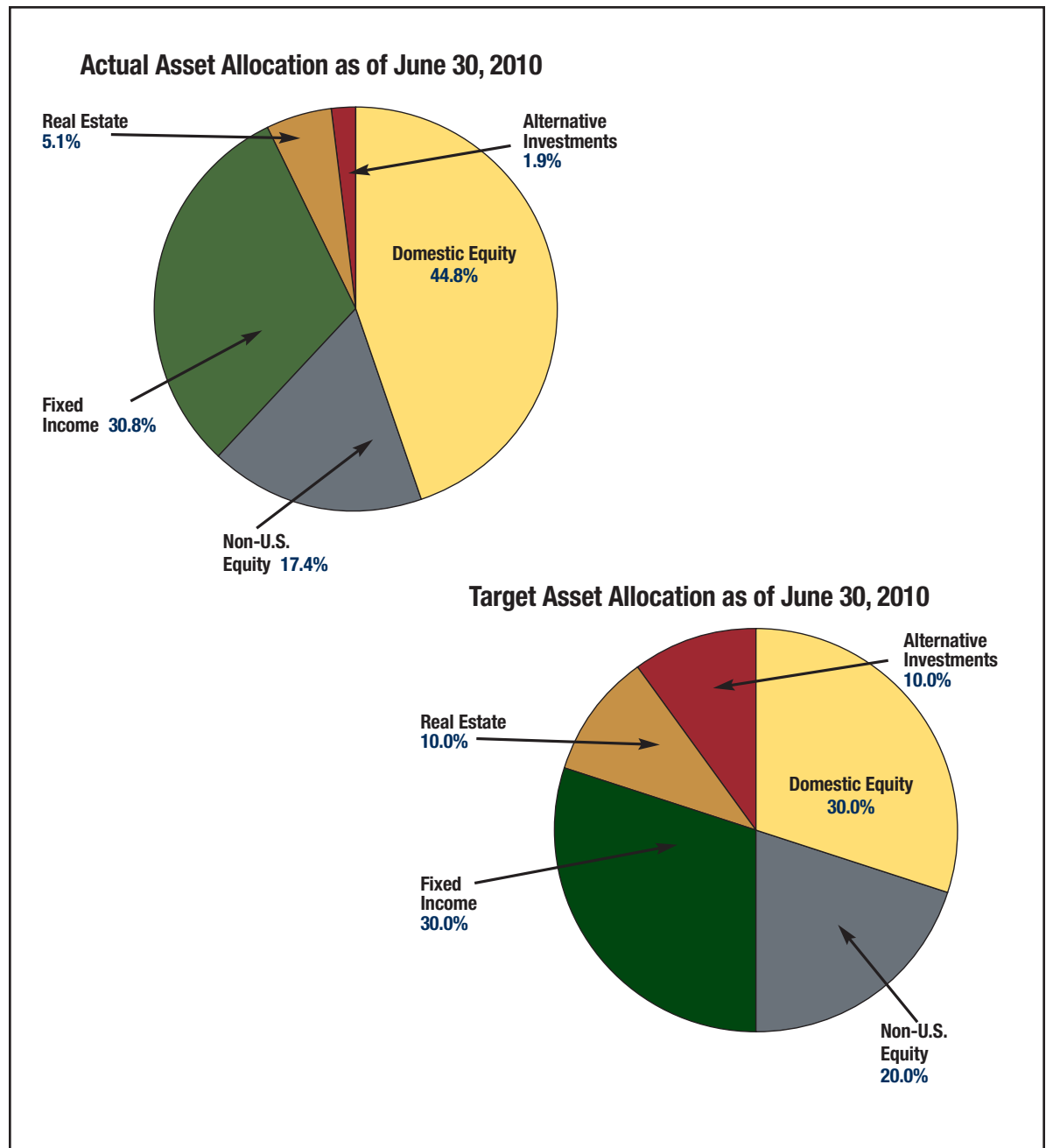


## Diversification of Investments

The Plans' investment portfolio is broadly diversified across an array of asset classes in order to provide stability and guard against risk in the capital markets. In total, the Plans have a well-diversified investment program.





- The asset allocation targets and ranges were approved by the Board of Trustees on July 13, 2010 based on a recommendation of the Investment Committee. Prior to this, the non-U.S. equity asset allocation target was International Equity (15%) and Global Equity (5%).

Shown below are the actual and target asset allocation as of June 30, 2010.





## Member Profiles

PENSION PLAN					Total
	Employees	Teachers	Police	Fire	
<b>Active Members</b>					
Average Age	48.3	45.6	39.1	40.6	46.3
Average Service	10.2	12.3	10.7	12.6	11.1
Average Annual Pay	\$42,065	\$54,870	\$61,090	\$66,233	\$49,168
<b>Retired Members</b>					
Average Age	70.5	68.5	62.5	65.0	68.7
Average Annual Pension	\$12,208	\$21,375	\$32,689	\$34,454	\$18,652
<b>Total Membership</b>					
Active	25,987	18,603	4,231	1,646	50,467
Retired	12,802	9,087	2,702	1,254	25,845
Terminated — Vested	836	601	65	13	1,515

OPEB PLANS	One-Person Coverage		Two-Person Coverage		
	Number of Retirees	Pre-65	Post-65	Pre-65	Post-65
		10,592	1,882	6,766	1,634

### DISTRIBUTION OF RETIREES BY YEARS OF CREDITED SERVICE

(\$ in Millions)

	0–9 Years	10–19 Years	20–29 Years	30+ Years	Total
<b>Pension Plan</b>					
Total Retirees	3,036	7,961	9,123	5,725	25,845
Annual Benefits	\$17.9	\$77.0	\$207.3	\$179.9	\$482.1
<b>OPEB Plans</b>					
Total Retirees	418	517	5,680	3,977	10,592
Annual Benefits	\$2.2	\$2.9	\$31.5	\$24.0	\$60.6

The Summary Annual Financial Report is derived from detailed information contained in the New Hampshire Retirement System's Comprehensive Annual Financial Report (CAFR). The System's CAFR is prepared in conformity with Generally Accepted Accounting Principles (GAAP). Both of these reports are available on our website at [www.nhrs.org](http://www.nhrs.org).

### Contact Information

**New Hampshire Retirement System**  
 54 Regional Drive, Concord, NH 03301-8507  
 Telephone: (603) 410-3500 • Toll Free: (877) 600-0158  
 Fax: (603) 410-3501 • Email: [info@nhrs.org](mailto:info@nhrs.org)

Website: [www.nhrs.org](http://www.nhrs.org)  
 Monday–Friday  
 8:00 a.m. to 4:00 p.m.

## Outstanding Achievement

The Government Finance Officers Association of the United State and Canada (GFOA) presented an Award for Outstanding Achievement in Popular Annual Financial Reporting to the New Hampshire Retirement System for its summary annual report for the fiscal year ended June 30, 2009.

This prestigious national award recognizes popular reports for creativity, presentation, understandability, and reader appeal and is valid for a period of one year. We believe the current summary annual report continues to meet these program standards and we are submitting it to the GFOA for evaluation.

