

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, 2016



Mission, Vision, and Values

The New Hampshire Retirement System plays an important role in the long-term economic well-being of the state's public employees, teachers, police officers, and firefighters. NHRS strives to meet this responsibility through a commitment to our mission, vision, and values.

OUR MISSION

To provide secure retirement benefits and superior service.

OUR VISION

NHRS will fulfill our role as fiduciary of the trust and deliver retirement benefits to our members and beneficiaries through a commitment to value, innovation and excellence.

OUR VALUES

Security – Providing promised benefits and guarding the confidentiality of personal information.

Excellence – Striving to exceed expectations through innovation, accountability, and teamwork.

Respect – By recognizing the uniqueness and importance of our stakeholders, our co-workers, and ourselves, we foster collaboration and cooperation.

Value – Committing to be a trusted and effective fiduciary by always acting in the best interest of our membership.

Integrity – Acting in an ethical, honest, and professional manner in all our interactions.

Communication – Providing responsive, accurate, and timely information to our stakeholders.

Empathy – Being aware of the feelings of others and how our actions affect them enables us to be responsive to the needs of all we encounter.



NHRS

New Hampshire Retirement System

NH Retirement System Board of Trustees

The members of the New Hampshire Retirement System Board of Trustees are appointed and serve pursuant to RSA 100-A:14.

Public Members

Richard Gustafson, Chair
Maureen Kelliher
David McCrillis
Hershel Sosnoff

Employee Members

Tonya Angwin, Teacher
William Hart, Police
Germano Martins, Employee
George Walker, Fire

Employer Members

John Beardmore, State of New Hampshire
Julia Griffin, NH Municipal Assoc.
Donald M. Roy, NH School Boards Assoc.
Stephen Marro, NH Assoc. of Counties

Ex Officio Member

Bill Dwyer, State Treasurer

Independent Investment Committee

The members of the New Hampshire Retirement System Independent Investment Committee are appointed and serve pursuant to RSA 100-A:14-b.

Harold Janeway, Chair
David Jensen
Maureen Kelliher
Patrick O'Donnell
Hershel Sosnoff

Executive Director

George P. Lagos

About this report

The New Hampshire Retirement System (NHRS, the retirement system) is pleased to present the Summary Annual Financial Report (“Summary CAFR”) for the fiscal year ended June 30, 2016. This report is presented in conformity with Generally Accepted Accounting Principles and is intended to provide an overview of NHRS financial, investment, funding, accounting, and demographic information in an easy-to-understand format.

About NHRS

NHRS was established in 1967 as a contributory, defined benefit plan. The plan provides lifetime pension benefits that are determined at retirement under formulas prescribed by law; the pension benefit is not based on investment returns or contributions.

The retirement system provides service retirement, early retirement, disability retirement, and vested deferred retirement benefits, as well as pre- and post-retirement death benefits. It also provides eligible retirees and beneficiaries with other post-employment benefits (OPEB). This benefit consists of a post-retirement Medical Subsidy, which is a payment made by NHRS to an eligible retired member’s former employer toward the cost of the retired member’s health insurance premium.

Benefit formulas and eligibility requirements are set by state law (RSA 100-A). The retirement system is also governed by administrative rules, policies adopted by the Board of Trustees, and the Internal Revenue Code.

Retirement system members are state, county and municipal employees, teachers, police officers, and firefighters. The membership consists of two groups, Group I (Employee and Teacher) and Group II (Police and Fire).

NHRS has 48,069 active, contributing members. Group I members make up 88 percent of the total active membership. Group II members make up 12 percent of the total active membership.

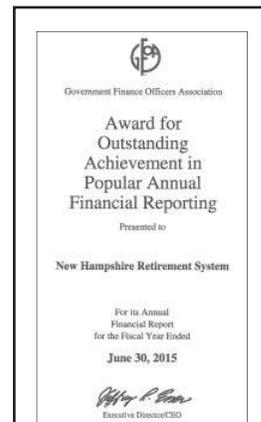
The retirement system has 32,776 pension recipients and 10,160 retirees and/or beneficiaries receiving a post-retirement Medical Subsidy.

Benefits are funded by member contributions, employer contributions, and net investment returns. Investment returns have historically provided the majority of funding for pension benefits.

NHRS has 471 participating employers – the State of New Hampshire, counties, individual communities, school districts, and others. Not every political subdivision participates in the retirement system for its employees, although most do. Participation is mandatory for police, fire, and teacher employers.

Learn more

The information included in this report is taken from the retirement system’s more detailed Comprehensive Annual Financial Report (CAFR), which is prepared in accordance with Generally Accepted Accounting Principles. Copies of the CAFR, the Summary CAFR, and the NHRS Comprehensive Annual Investment Report (CAIR) may be viewed or downloaded at www.nhrs.org.



Outstanding Achievement

The Government Finance Officers Association of the United States 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, 2015.

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.

The year in review...

Financial Highlights

- Plan net position decreased by \$69.1 million (-0.9%) from the prior year's net position.
- Net investment income during fiscal year 2016 was \$62.0 million, a \$188.9 million (-75.3%) decrease over the prior fiscal year. The net investment income for fiscal year 2016 reflects a time-weighted return for the total fund during the year of 1.0% compared to a time-weighted investment return of 3.5% for the fiscal year ended June 30, 2015.
- The total contributions received during the fiscal year were \$623.6 million. For fiscal year 2015, total contributions received were \$585.3 million.
- Employer contributions for fiscal year 2016 increased to \$415.7 million (9.1%) compared with employer contributions in fiscal year 2015 of \$381.2 million. The increase in employer contributions in fiscal year 2016 was primarily due to higher contribution rates.
- Member contributions were \$207.9 million in fiscal year 2016, an increase of (1.9%) over fiscal year 2015 member contributions of \$204.1 million. The increase in member contributions is primarily due to an increase in earnable compensation for contributing members. Overall member normal contributions increased by \$4.7 million (2.4%) over the prior fiscal year. Voluntary member contributions decreased by \$0.8 million (-15.3%) over fiscal year 2015.
- Benefits paid during fiscal year 2016 were \$722.2 million, an increase of 5.5% over the benefits paid in fiscal year 2015 of \$684.6 million. The increase in benefits paid in fiscal year 2016 is primarily due to an increase in the number of retirees and increased average benefit levels for those new retirees.

Legislative Changes

Legislation was enacted in the 2016 session which:

- Modified the administrative procedure regarding the assessment of employer penalties for noncompliance with retiree data reporting requirements.
- Required that the presiding officer designated by the Board of Trustees in disability hearings shall not be the same person who made an initial disability determination and recommendation to the Board.
- Allowed a retired member to change an optional allowance (i.e. "survivorship option") to the maximum retirement allowance beyond the 120-day statutory limit in two specific instances.

Major Accomplishments

- Revised a number of key actuarial assumptions based on the findings contained in a statutorily mandated actuarial experience study. The changes, which were made to better reflect the retirement system's actual and anticipated experience, included reducing the assumed rate of investment return from 7.75% to 7.25%, increasing the mortality assumption, and reducing the payroll growth factor.
- Successfully implemented requirements of GASB 68 (Accounting and Financial Reporting for Pensions), including the creation of training and educational materials for employers, lawmakers, and other stakeholders.
- Transitioned the issuance of annual member account statements to online availability, enhancing security and saving significant print and postage expense.
- Performed an operational risk assessment to identify, evaluate, communicate, and monitor risk.
- Provided participating employers and insurance vendors with the ability to submit insurance premium rate changes electronically, saving substantial staff time and reducing the opportunities for data entry errors.
- Achieved investment performance for FY 2016 of 1.0% which placed NHRS in the top 35% of the peer universe of public pension plans.
- Implemented automation of the annual gainful occupation reporting process for disability retirees.
- Replaced the retirement system's end-of-life Oracle-based imaging system with PCX solution, an integrated imaging solution provided by LRS, our pension administration application partner.
- Completed a multi-faceted cybersecurity initiative, which included deploying multifactor VPN, security awareness training for staff, implementation of email encryption, and implementing an upgraded Cisco firewall.
- Established new co-location (COLO) site for NHRS IT infrastructure to provide redundancy for NHRS data in addition to the existing disaster recovery protections in place for our pension data.
- Upgraded email software and increased size of subscriber list by 600%.
- Earned the Certificate of Achievement for Excellence in Financial Reporting for both the Comprehensive Annual Financial Report (CAFR) and Summary CAFR.

**Summary Comparative Statements of Fiduciary Net Position:
Combined Pension and OPEB Plans**

(\$ in millions)

The Statements of Fiduciary Net Position provide a summary of what NHRS owns (assets) and what it owes (liabilities) as of the end of the fiscal year.

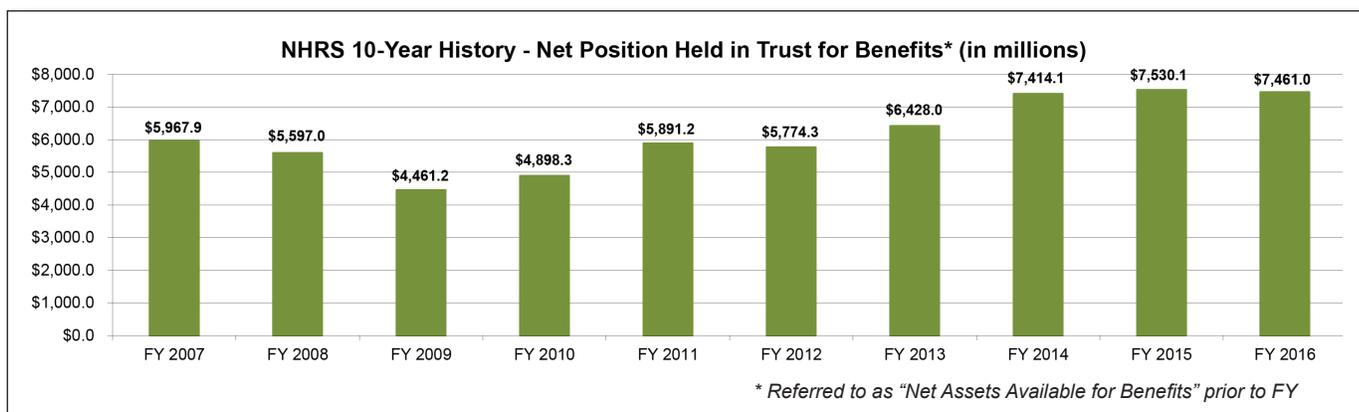
	As of June 30, 2016	As of June 30, 2015	Amount Increase (Decrease)	Percent Increase (Decrease)
Cash	\$ 6.7	\$ 5.2	\$ 1.5	28.8%
Receivables	122.9	106.2	16.7	15.7%
Investments	7,372.7	7,460.7	(88.0)	(1.2%)
Other Assets	0.2	0.2	0.0	0.0%
Total Assets	\$7,502.5	\$7,572.3	\$ (69.8)	(0.9%)
Other Liabilities	41.5	42.2	(0.7)	(1.7%)
Total Liabilities	\$ 41.5	\$ 42.2	\$ (0.7)	(1.7%)
Net Position Restricted for Pension and OPEB	\$7,461.0	\$7,530.1	\$ (69.1)	(0.9%)

**Summary Comparative Statements of Changes in Plan Net Position:
Combined Pension and OPEB Plans**

(\$ in millions)

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

	As of June 30, 2016	As of June 30, 2015	Amount Increase (Decrease)	Percent Increase (Decrease)
ADDITIONS:				
Employer Contributions	\$ 415.7	\$ 381.2	\$ 34.5	9.1%
Member Contributions	207.9	204.1	3.8	1.9%
Net Investment Income (Loss)	62.0	250.9	(188.9)	(75.3%)
Other Income	0.8	1.1	(0.3)	(27.3%)
Total Additions to Net Position	\$ 686.4	\$ 837.3	\$ (150.9)	(18.0%)
DEDUCTIONS:				
Benefits Paid	\$ 722.2	\$ 684.6	\$ 37.6	5.5%
Refunds of Contributions	24.2	26.3	(2.1)	(8.0%)
Administrative Expense	7.1	7.6	(0.5)	(6.6%)
Other Deductions	2.0	2.8	(0.8)	(28.6%)
Total Deductions from Net Position	\$ 755.5	\$ 721.3	\$ 34.2	4.7%
Total Changes in Net Position	\$ (69.1)	\$ 116.0	\$ (185.1)	(159.6%)



Investment Performance

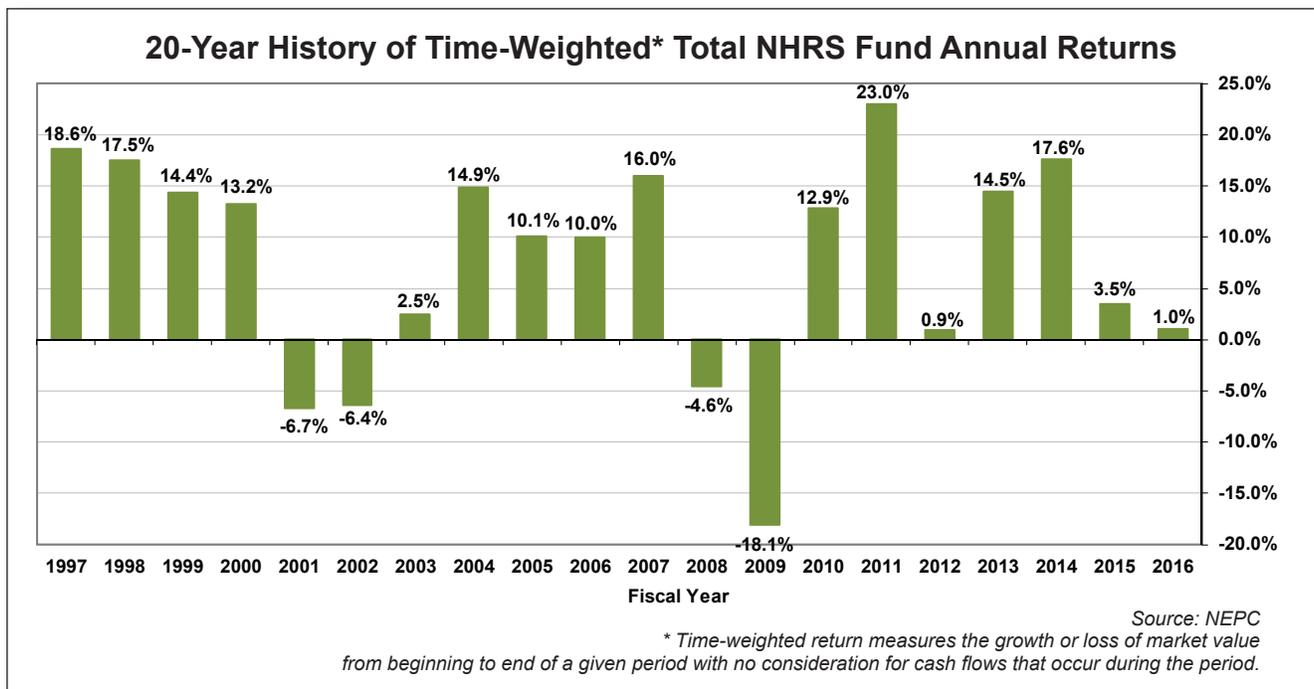
Investment returns are reported net of investment expenses and are measured against a total fund custom index. The total fund custom index (see below) is a blend consisting of major market indices in proportion to the retirement system's asset allocation; this index changes as strategies and objectives evolve over time. The retirement system's assumed rate of investment return is 7.25%.

The results of the plans' investment program for the period ended June 30, 2016, are as follows:

- For fiscal year 2016, the total fund investment return of 1.0% underperformed the total fund custom index return of 2.4%. For this period, the individual asset classes generated the following performance: domestic equity 0.0%; non-U.S. equity -7.9%; fixed income 4.2%; real estate 13.8%; and alternative investments 2.8%.
- The three-year, five-year, 10-year, 20-year, and 25-year returns for the periods ended June 30, 2016, were 7.1%, 7.2%, 6.0%, 7.0%, and 8.2%, respectively.
- Compared to the members in the InvestorForce Public Defined Benefit Universe, which represents 270 public plans totaling more than \$400 billion in assets, NHRS performed better than 65% of its peers over the one-year period and better than 80% its peers over the three-, five-, and 10-year periods.

	Current Year 2016	Annualized		
		3-Year	5-Year	10-Year
Total NHRS Fund	1.0%	7.1%	7.2%	6.0%
Total Fund Custom Index*	2.4%	8.1%	7.9%	6.3%

* For June 30, 2016, the total fund custom index consisted of: 30.0% S&P 500 Index (U.S. Equity); 20% MSCI All Country World Ex-U.S. Index (Non-U.S. Equity); 25% Barclays Capital Universal Bond Index (Fixed Income); 10.0% NCREIF NFI-ODCE Index – Net of Fee (Real Estate); and 15.0% Alternative Assets Blended Benchmark* (Alternative Investments). *This benchmark consists of: (1) 33.3% S&P 500 Index + 3%; 33.3% S&P LSTA Leveraged Loan 100 Index; and (3) 33.3% 1-month USD LIBID + 5%.



Diversification of Investments

An asset allocation is designed to diversify an investment portfolio to minimize risk and maximize performance.

The New Hampshire Retirement System Board of Trustees, with research and input from NHRS investment staff, outside experts, and a recommendation from the Independent Investment Committee (IIC), set an investment policy that includes asset allocation targets and acceptable ranges.

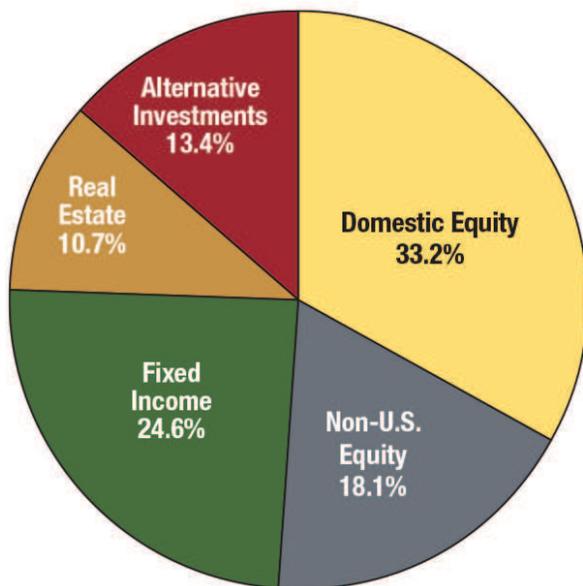
The IIC manages investments based on the Trustees' policies; continuously monitors and evaluates performance; and makes determinations regarding the hiring and retention of fund managers.

The actual and target asset allocations as of June 30, 2016, for NHRS are shown on the charts below. Domestic Equity is primarily made up of stocks in U.S. companies. Non-U.S. Equity contains stocks of foreign companies. Fixed Income includes bonds and cash with the objectives of providing current income and preserving capital. Real Estate is primarily made up of investments in commingled real estate funds and real estate limited partnerships. Alternative Investments primarily include private equity and private debt limited partnerships that are not traded in the public market.

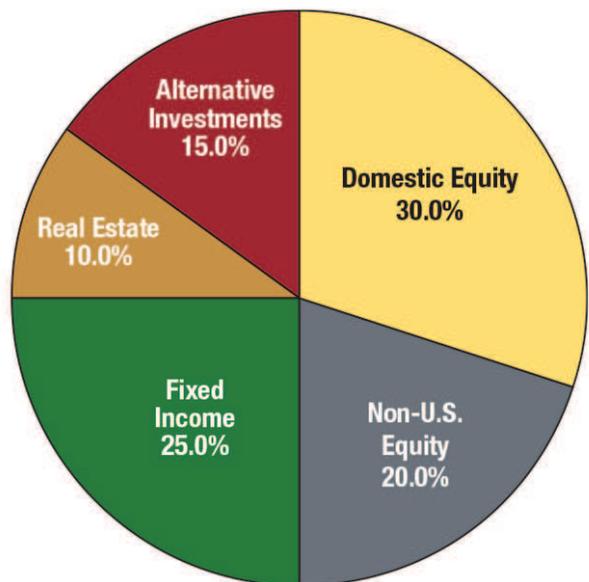
More detailed information regarding the NHRS investment portfolio can be found in the Comprehensive Annual Financial Report and the Comprehensive Annual Investment Report, which are available at www.nhrs.org.

Actual Asset Allocation Versus Target Asset Allocation

Actual Asset Allocation as of June 30, 2016



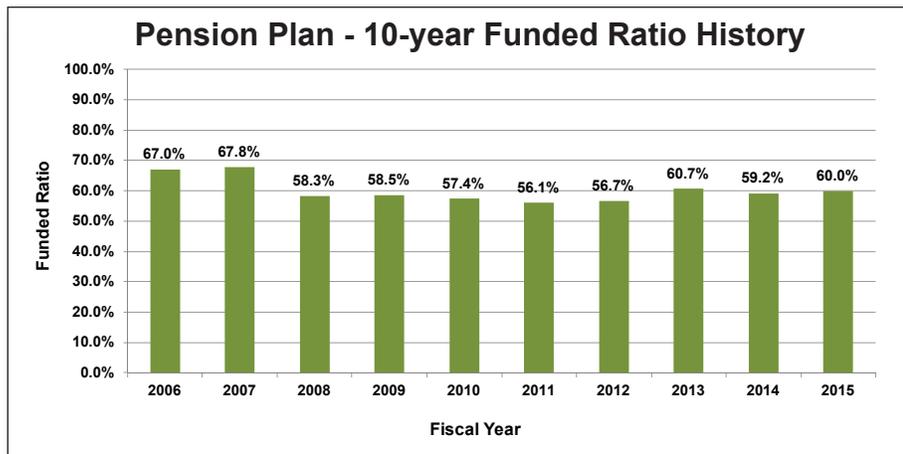
Target Asset Allocation as of June 30, 2016



Actuarial Funding Progress

The primary measure of a benefit plan’s progress is its funded status, or funded ratio, which compares the assets available to the benefits that must be paid. As of June 30, 2016, the funded ratio for the pension plan was 60.0%. This means that the actuarial value of the retirement system’s assets is 60.0% of the projected amount needed to pay for both current retirees and the accrued benefit for future retirees.

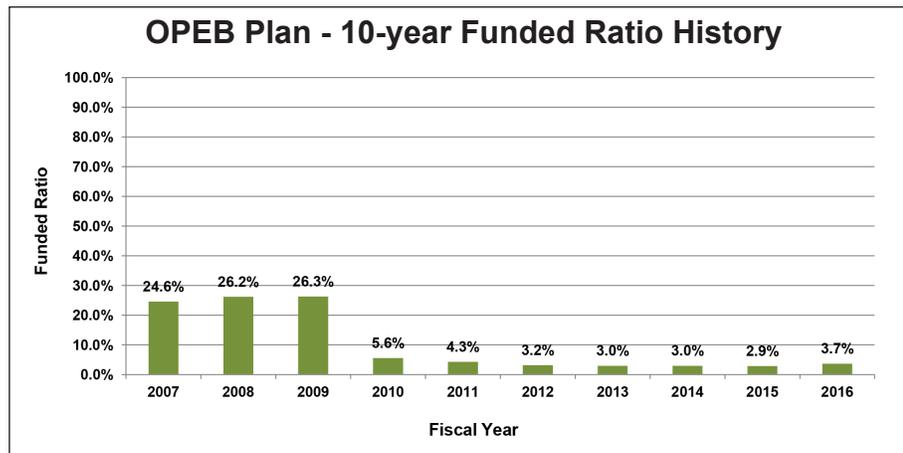
The OPEB plan, more commonly known as the Medical Subsidy, had a funded ratio at June 30, 2016, of 3.7%. This low funded ratio is because OPEB is funded, pursuant to statute, at the minimum necessary to remain solvent (see note below the OPEB graph). The OPEB benefit covers a retiree population that is fixed and the benefit is no longer available for the majority of current active members.



Note: Funded ratio impacted by reduction to assumed rate of investment return and other adjustments to actuarial assumptions adopted in FY 2011 and FY 2016.

Pension Highlights

- The unfunded actuarial accrued liability for the Pension Plan was \$5,096.8 million at June 30, 2016.
- The actuarial value of assets available to pay pension benefits was \$7,636.1 million at June 30, 2016.
- The Pension Plan funded ratio was 60.0% at June 30, 2016.



OPEB Highlights

- The unfunded actuarial accrued liability for the OPEB Plan was \$730.1 million at June 30, 2016.
- The actuarial value of assets available to pay OPEB benefits was \$27.3 million at June 30, 2016.
- The OPEB Plans’ funded ratio was 3.7% at June 30, 2016.

Beginning in FY 2010, the OPEB plans have been funded by allocating the lesser of 25% of all employer contributions made in accordance with RSA 100-A:16 or the percentage of employer contributions determined by the actuary to be the minimum rate necessary to maintain the benefits provided. Since FY 2010, the minimum rate necessary was the lesser of the two options.

Member and Retiree Data

PENSION PLAN	Employee	Teacher	Police	Fire	Total
Active Members					
Average Age	49.2	46.2	39.2	41.4	46.9
Average Service	11.2	13.5	11.0	13.2	12.1
Average Annual Pay	\$46,348	\$59,920	\$67,789	\$73,034	\$54,118
Retired Members					
Average Age	71.5	70.7	63.5	65.8	70.1
Average Annual Pension	\$13,823	\$23,134	\$35,737	\$38,552	\$20,694
Total Membership					
Active	24,520	17,784	4,139	1,626	48,069
Retired	16,142	11,410	3,629	1,595	32,776
Terminated - Vested	973	711	89	12	1,785

OPEB PLANS (Medical Subsidy)	Number of Retirees	One-Person Coverage		Two-Person Coverage	
		Pre-65	Post-65	Pre-65	Post-65
	10,160	815	7,987	861	497



Contact Information

New Hampshire Retirement System

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Email: info@nhrs.org • Website: www.nhrs.org

Hours of Operation

Monday–Friday
8:00 a.m. to 4:00 p.m.