



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, 2019

**Our Mission: To provide secure
retirement benefits and superior service**



NHRS
New Hampshire Retirement System

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.



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
Timothy Lesko
Robert Maloney

Employee Members

Melvin Friese, Employee
Sue Hannan, Teacher
William Hart, Police
George Walker, Fire

Employer Members

Christopher Coates, NH Assoc. of Counties
Benjamin Jean, State of New Hampshire
Scott Myers, NH Municipal Assoc.
Donald M. Roy, NH School Boards Assoc.

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.

Maureen Kelliher, Chair
Christine Clinton
Daniel LaPlante
Timothy Lesko
Keith Quinton

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, 2019. 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 calculated 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 48,288 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 38,352 benefit recipients and 9,676 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 465 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, 2018.

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 at June 30, 2019, stood at \$9.208 billion, an increase of \$333.4 million (3.8%) from the prior year's net position.
- Net investment income during fiscal year 2019 was \$490.2 million, a \$229.9 million (31.9%) decrease over the prior fiscal year. The net investment income for fiscal year 2019 reflects a time-weighted return for the total fund during the year of 5.7% compared to a time-weighted investment return of 8.9% for the fiscal year ended June 30, 2018.
- The total contributions received during the fiscal year were \$703.9 million. For fiscal year 2018, total contributions received were \$684.4 million.
- Employer contributions for fiscal year 2019 increased to \$479.9 million (2.8%) compared with employer contributions in fiscal year 2018 of \$466.8 million. The increase in employer contributions in fiscal year 2019 was primarily due to growth in covered payroll.
- Member contributions were \$224.0 million in fiscal year 2019, an increase of 2.9% over fiscal year 2018 member contributions of \$217.6 million. The increase in member contributions is primarily due to an increase in earnable compensation for contributing members. Overall member normal contributions increased by \$6.2 million (2.9%) over the prior fiscal year. Voluntary member contributions increased by \$0.2 million (5.1%) over fiscal year 2018.
- Benefits paid during fiscal year 2019 were \$828.7 million, an increase of 4.8% over the benefits paid in fiscal year 2018 of \$791.0 million. The increase in benefits paid in fiscal year 2019 is primarily due to an increase in the number of retirees, the increased average benefit levels for those new retirees, and a \$500 one-time payment paid to approximately 8,000 eligible retirees in August 2018.

Legislative Changes

Legislation was enacted in the 2019 session which:

- Granted a one-time, 1.5% cost-of-living adjustment (COLA) on the first \$50,000 of an annual pension benefit to members who retired on or before July 1, 2014, or any beneficiary of such member who is receiving a survivorship pension benefit. The COLA will take effect on the retired member's first anniversary date of retirement occurring after July 1, 2020.
- Required that the annual costs to the retirement system of preparing statutorily required fiscal analysis of proposed legislation be reimbursed to NHRS by the state.
- Changed the method for determining the proper NHRS membership classification of state "correctional line personnel" as defined in RSA 100-A.
- Classified annual attendance stipends or bonuses as earnable compensation for NHRS provided that they are paid pursuant to a collective bargaining agreement, personnel policy, or other agreement applicable to substantially all employees and the amount of which is determined by reference to the amount of sick days an employee used in the calendar or fiscal year.
- Modified the cost calculation methodologies for the purchase of service credit in the retirement system for active service in the armed forces prior to NHRS membership and in cases of employer enrollment oversight.
- Added an active NHRS member to the NHRS Independent Investment Committee as a non-voting Committee member. The member would be appointed by the Governor from a list of nominations provided by public employee labor organizations.

Major Initiatives

Some of the significant accomplishments during fiscal year 2019 were:

- Launched multi-year upgrade of current pension administration system.
- Completed an independent, third-party actuarial audit, which identified no material issues.
- Developed educational presentations, online materials, and dedicated web page for members approaching retirement as part of a multi-year effort to expand education and outreach to members, retirees, and employers. Also developed and posted financial literacy content for members and retirees on website.
- Co-location (COLO) site completed, which allows for continuity of operations in a disaster event.
- Amended administrative rules as part of a statutorily required 10-year review.
- Issued the June 30, 2018, GASB 68 and 75 report with unmodified (clean) opinions.

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

(\$ in millions)

The Condensed 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, 2019	As of June 30, 2018	Amount Increase (Decrease)	Percent Increase (Decrease)
Cash	\$ 234.6	\$ 291.3	\$ (56.7)	(19.5%)
Receivables	120.5	112.1	8.4	7.5%
Investments	8,894.5	8,508.7	385.8	4.5%
Other Assets	1.1	0.2	0.9	450.0%
Total Assets	\$9,250.7	\$8,912.3	\$338.4	3.8%
Other Liabilities	43.1	38.1	5.0	13.1%
Total Liabilities	\$ 43.1	\$ 38.1	\$ 5.0	13.1%
Net Position Restricted for Pension and OPEB	\$9,207.6	\$8,874.2	\$ 333.4	3.8%

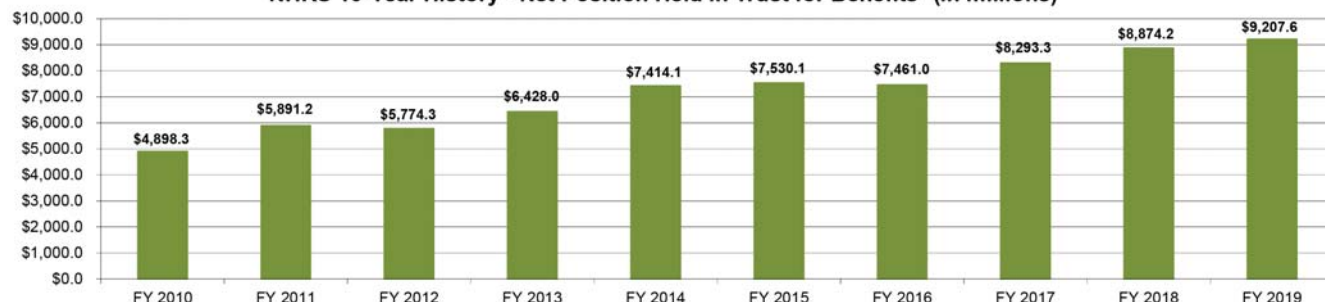
Condensed Comparative Statements of Changes in Plan Net Position: Combined Pension and OPEB Plans

(\$ in millions)

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

	As of June 30, 2019	As of June 30, 2018	Amount Increase (Decrease)	Percent Increase (Decrease)
ADDITIONS:				
Employer Contributions	\$ 479.9	\$ 466.8	\$ 13.1	2.8%
Member Contributions	224.0	217.6	6.4	2.9%
Net Investment Income (Loss)	490.2	720.2	(229.9)	(31.9%)
Total Additions to Net Position	\$ 1,194.1	\$ 1,404.6	\$ (210.4)	(15.0%)
DEDUCTIONS:				
Benefits Paid	\$ 828.7	\$ 791.0	\$ 37.7	4.8%
Refunds of Contributions	23.5	24.0	(0.5)	(2.1%)
Administrative Expense	7.6	7.8	(0.2)	(2.6%)
Other Deductions	0.9	0.9	0.1	11.1%
Total Deductions from Net Position	\$ 860.7	\$ 823.7	\$ 37.1	4.5%
Total Changes in Net Position	\$ 333.4	\$ 580.9	\$ (247.5)	(42.6%)

NHRS 10-Year History - Net Position Held in Trust for Benefits* (in millions)



* Referred to as "Net Assets Available for Benefits" prior to FY 2013

Investment Performance

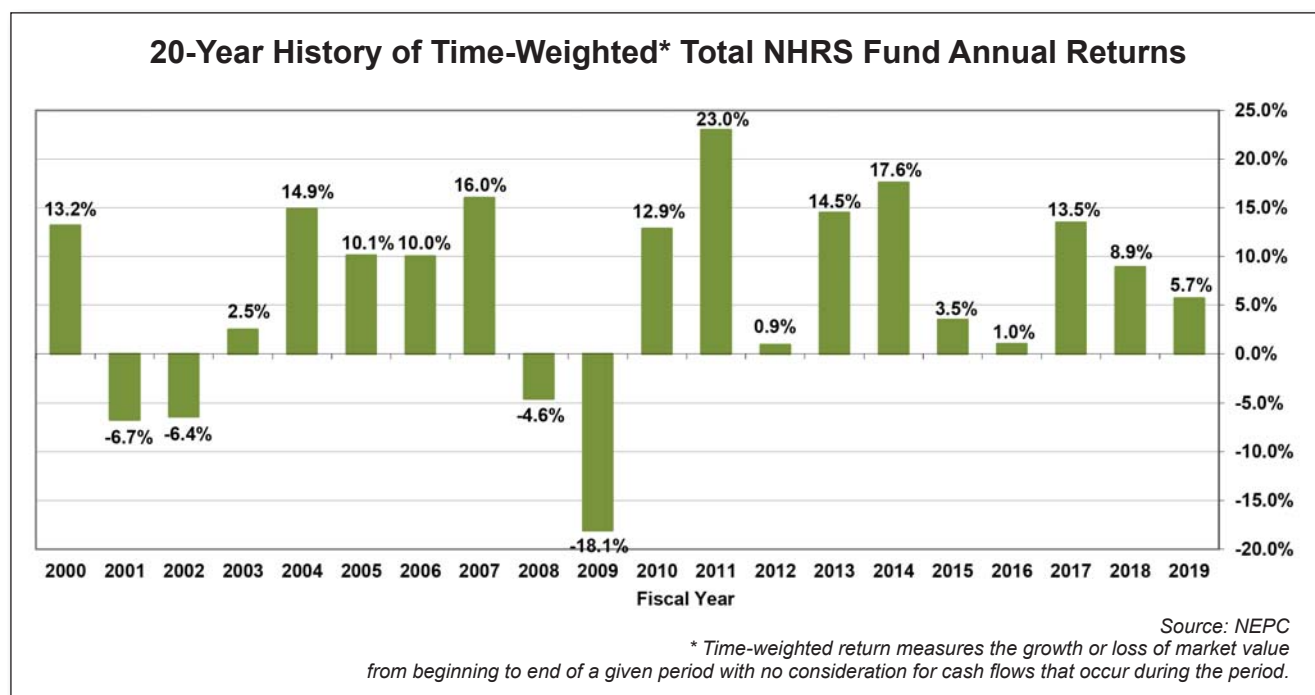
Investment returns are reported net of investment expenses and are measured against a total fund custom index. The total fund custom index (see below) is a blend consisting of major market indices in proportion to the retirement system's asset allocation; this index changes as strategies and objectives 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, 2019, are as follows:

- For fiscal year 2019, the total fund investment return of 5.7% underperformed the total fund custom index return of 7.6%. For this period, the individual asset classes generated the following performance: domestic equity 6.0%; non-U.S. equity 2.1%; fixed income 6.4%; real estate 7.1%; and alternative investments 6.9%.
- The three-year, five-year, 10-year, 20-year, and 25-year returns for the periods ended June 30, 2019, were 9.3%, 6.4%, 9.9%, 5.9%, and 8.2%, respectively.
- Compared to the members in the InvMetrics Public Defined Benefit Net Universe, which consists of 535 public pension plans totaling \$700 billion in assets, NHRS performed better than two-thirds of its peers over the three-, five- and 20-year periods and better than 85% of its peers over the 10- and 25-year periods. The one-year return was below the median, with NHRS placing just outside the bottom third of all plans. All returns are net of fees.

	Current Year 2019	Annualized		
		3-Year	5-Year	10-Year
Total NHRS Fund	5.7%	9.3%	6.4%	9.9%
Total Fund Custom Index*	7.6%	9.1%	6.8%	10.0%

* For June 30, 2019, 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%; (2) 33.3% S&P LSTA Leveraged Loan 100 Index; and (3) 33.3% 6-month USD LIBOR + 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.

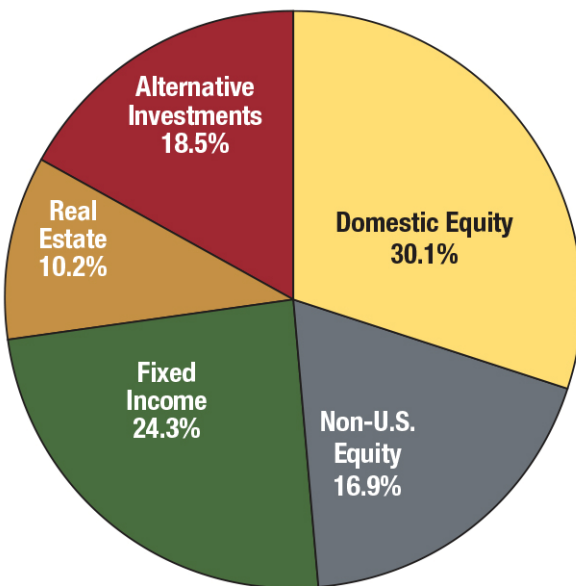
The actual and target asset allocations as of June 30, 2019, for NHRS are shown on the charts below. Domestic Equity is primarily made up of stocks in U.S. companies. Non-U.S. Equity contains stocks of foreign companies. Fixed Income includes bonds and cash with the objectives of providing current income 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:

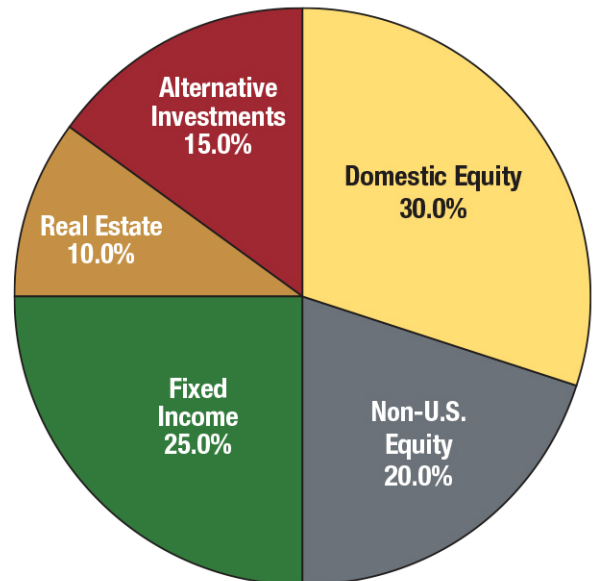
<https://www.nhrs.org/funding-and-investments/reports-valuations>

Actual Asset Allocation Versus Target Asset Allocation

Actual Asset Allocation as of June 30, 2019



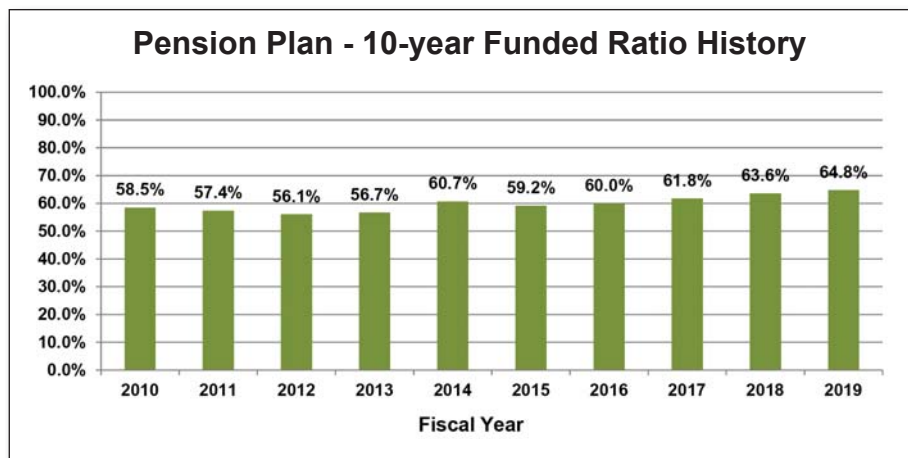
Target Asset Allocation as of June 30, 2019



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, 2019, the funded ratio for the pension plan was 64.8%. This means that the actuarial value of the retirement system's assets is 64.8% of the projected amount needed to pay for both current retirees and the accrued benefit for future retirees.

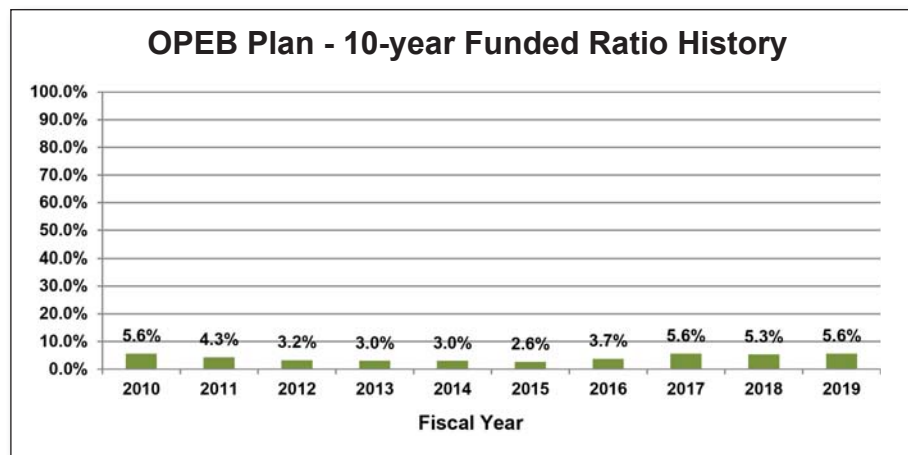
The OPEB plan, more commonly known as the Medical Subsidy, had a funded ratio at June 30, 2019, of 5.6%. This low funded ratio is because OPEB is funded, pursuant to statute, at the minimum necessary to remain solvent (see note below the OPEB graph). The OPEB benefit covers a retiree population that 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 \$4,953.4 million at June 30, 2019.
- The actuarial value of assets available to pay pension benefits was \$9,121.9 million at June 30, 2019.
- The Pension Plan funded ratio was 64.8% at June 30, 2019.



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.

OPEB Highlights

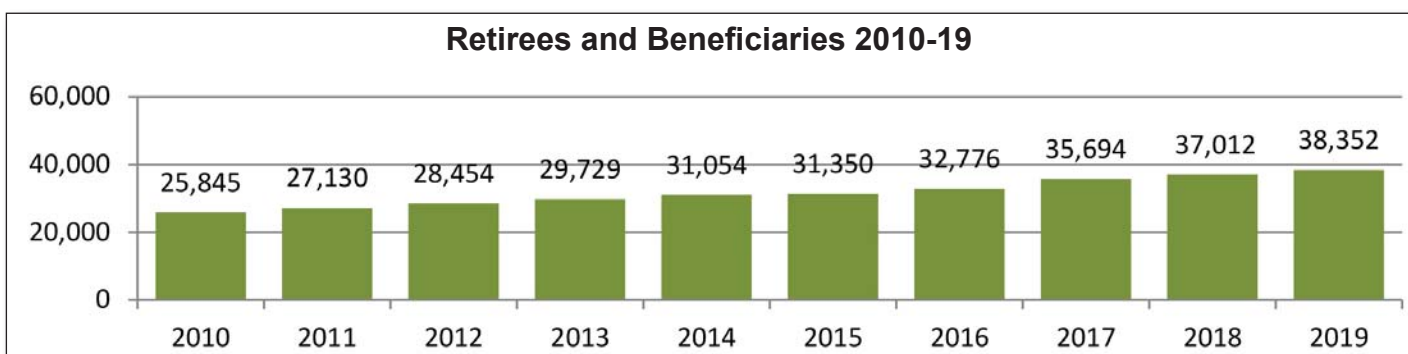
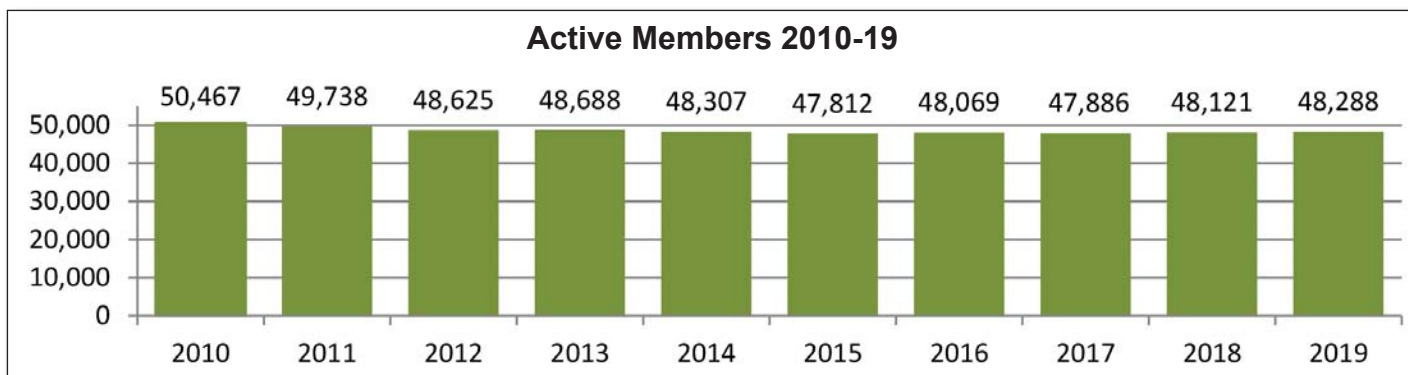
- The unfunded actuarial accrued liability for the OPEB Plan was \$657.6 million at June 30, 2019.
- The actuarial value of assets available to pay OPEB benefits was \$36.6 million at June 30, 2019.
- The OPEB Plans' funded ratio was 5.6% at June 30, 2019.

Fiscal Year 2019 Member and Retiree Data

PENSION PLAN	Employee	Teacher	Police	Fire	Total
Active Members					
Average Age	49.0	46.0	38.9	41.3	46.7
Average Service	10.8	13.4	10.8	13.1	11.9
Average Annual Pay	\$50,496	\$64,050	\$74,245	\$77,875	\$58,503
Retired Members					
Average Age	71.9	71.7	64.4	66.6	70.8
Average Annual Pension	\$13,981	\$22,236	\$36,908	\$40,606	\$20,563
Total Membership					
Active	24,654	17,730	4,216	1,688	48,288
Retired	18,824	13,740	4,082	1,706	38,352
Terminated - Vested	1,366	1,034	125	27	2,552

OPEB PLANS (Medical Subsidy)		One-Person Coverage		Two-Person Coverage	
	Number of Retirees	Pre-65	Post-65	Pre-65	Post-65
	9,676	604	7,888	702	482

Historical Member and Retiree Data



Financial Accounting Data

In addition to actuarial funding data provided in this Summary report, the retirement system's more detailed Comprehensive Annual Financial Report (CAFR) also includes financial accounting data required under Governmental Accounting Standards Board (GASB) statements No. 67, which deals with financial reporting for pension plans, and No. 74, which deals with financial reporting of OPEB benefits, i.e. the Medical Subsidy.

The GASB information is for accounting purposes only and does not impact employer contribution rates or the statutory funding plan in place to pay down the NHRS unfunded liability.

To view the CAFR, see: <https://www.nhrs.org/funding-and-investments/reports-valuations>

For additional information on GASB reporting, see: <https://www.nhrs.org/employers/employer-resources/gasb>



Contact Information

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Hours of Operation

Monday–Friday

8:00 a.m. to 4:00 p.m.