

NHRS

New Hampshire Retirement System

A Component Unit Of The State Of New Hampshire

BENEFITS
TEACHER SESSION
EARNABLE COMPENSATION
RETIREMENT
POLICE CONTRIBUTION
EMPLOYER CREDITABLE SERVICE
SURVIVORSHIP OPTION
PENSION FIRE
ANNUITY MEMBER
VESTING AVERAGE FINAL COMPENSATION
DEFINED BENEFIT PLAN EMPLOYEE
TRUSTEES
IN SERVICE ACCUMULATED CONTRIBUTIONS

Summary Annual Financial Report For The Fiscal Year Ended June 30, 2011



The New Hampshire Retirement System is a promise keeper. Our role is that of a fiduciary — administering the retirement benefit commitments made by our participating employers to their employees who are our members — according to the plan provisions as enacted by the State Legislature. Our ability to deliver on these promises is derived from investing member and employer contributions in a manner consistent with our long-term obligations and administering the System fairly and efficiently.



About this report

The New Hampshire Retirement System (NHRS, the retirement system) is pleased to present the Summary Annual Financial Report for the fiscal year ended June 30, 2011. This report is intended to provide an overview of NHRS financial, investment, 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 the 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 and policies, 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 49,738 active, contributing members. Group I members make up 88.5 percent of the total active membership. Group II members make up 11.5 percent of the total active membership.

NHRS has 27,130 pension recipients and 10,577 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.

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 annual investment report may be viewed or downloaded at www.nhrs.org.

The Year in Review...

Financial Highlights

- Net assets available to pay benefits increased by \$992.8 million (20.3%) primarily due to strong investment returns.
- The net investment gain during fiscal year 2011 was \$1,131.7 million compared to a net investment gain during fiscal year 2010 of \$568.3 million. The net investment gain for fiscal year 2011 reflects a time-weighted investment return for the total fund during the year of 23.0% compared to a time-weighted investment return of 12.9% for the fiscal year ended June 30, 2010.
- Employer contributions for fiscal year 2011 increased 1.8% to \$307.5 million compared with employer contributions in fiscal year 2010 of \$302.2 million. Employer contribution rates remained the same for fiscal year 2011. The increase in employer contributions in fiscal year 2011 is primarily due to higher reported compensation.
- Member contributions were \$152.4 million in fiscal year 2011, an increase of 1.9% over fiscal year 2010 member contributions of \$149.5 million. Member contribution rates remained the same for fiscal year 2011. The increase in member contributions in fiscal year 2011 is primarily due to higher reported compensation.
- Benefits paid during fiscal year 2011 were \$579.8 million, an increase of 5.4% over the benefits paid in fiscal year 2010 of \$550.0 million. The increase in benefits paid in fiscal year 2011 is primarily due to an increase in the number of retirees and increased average benefit levels for those new retirees.

Legislative Changes

Significant changes to RSA 100-A, the statute governing NHRS, were enacted during the fiscal year 2011 legislative session. The bulleted items that follow provide a brief description of some of the major changes. The list is not meant to be inclusive of all legislation passed. For a more detailed summary of enacted legislation, consult NHRS' website at: http://www.nhrs.org/documents/2011_legislation_grid_07_08_11.pdf.

- Earnable compensation was redefined to eliminate certain types of compensation from the calculation of retirement benefits.
- Average Final Compensation (AFC) used in retirement benefit calculations for certain members was changed from the highest three years of earnable compensation to the highest five years of earnable compensation.
- The maximum initial benefit allowed was capped for certain members.
- The number of years of service and minimum age required to receive retirement benefits was increased for certain Group II members.
- Member contributions rates for all active contributing members were increased effective July 1, 2011.
- Purchases of out-of-state service were eliminated for all member groups.
- \$256.3 million of funds set aside in the Special Account to provide additional benefits such as cost-of-living adjustments (COLAs) were transferred back to the pension trust fund.
- The State of New Hampshire's cost-sharing provision whereby the State paid a certain percentage of local employers' contributions for teacher, police, and fire members was eliminated.
- The composition of the NHRS Board of Trustees was changed.
- Two study committees were created, one charged with looking into creating a defined contribution plan for new hires and the other charged with looking into the status of cost-of-living adjustments for retirees, Medical Subsidy benefits and disability retirement provisions.
- The minimum age required to receive retirement benefits was increased for Group I members hired on or after July 1, 2011.

Major Accomplishments

- Completed a five-year experience study that resulted in a reduction of the assumed rate of return to 7.75% from 8.5%, along with updates to the other economic and demographic actuarial assumptions.
- Provided expanded educational outreach to policymakers and all other interested parties regarding the operations of NHRS in light of the significant retirement-related legislation proposed in 2011.
- Successfully managed an unprecedented number of retirement counseling appointments and applications in the winter and spring of 2011.
- Increased member education opportunities by creating online presentations and additional website content regarding NHRS benefits, and increasing the frequency of member, retiree and employer newsletters.

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

(in millions)

	As of June 30, 2011	As of June 30, 2010	Amount Increase (Decrease)	% Increase (Decrease)
Cash	\$ 3.8	\$ 7.9	(\$ 4.1)	(51.9%)
Receivables	309.8	156.0	153.8	98.6%
Investments	5,853.3	4,840.7	1,012.6	20.9%
Cash Collateral on Securities Lending	—	471.1	(471.1)	(100.0%)
Other Assets	0.2	0.6	(0.4)	(66.7%)
Total Assets	\$6,167.1	\$5,476.3	\$ 690.8	12.6%
Cash Collateral on Securities Lending	—	471.1	(471.1)	(100.0%)
Other Liabilities	276.0	106.9	169.1	158.2%
Total Liabilities	\$ 276.0	\$ 578.0	(302.0)	(52.2%)
Net Assets Held in Trust for Benefits	\$5,891.1	\$4,898.3	\$ 992.8	20.3%

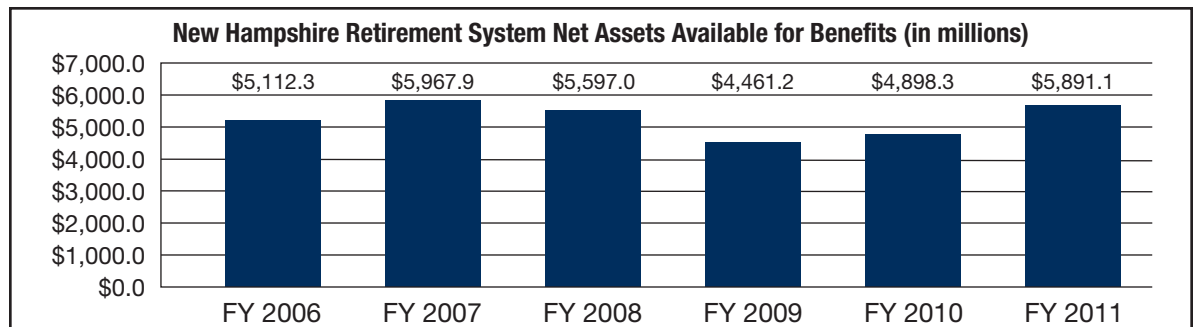
The Statements of Plan Net Assets provides a summary of what NHRS owns (assets) and what it owes (liabilities) as of the end of the fiscal year.

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

(in millions)

	As of June 30, 2011	As of June 30, 2010	Amount Increase (Decrease)	% Increase (Decrease)
ADDITIONS:				
Employer Contributions	\$ 307.5	\$ 302.2	\$ 5.3	1.8%
Member Contributions	152.4	149.5	2.9	1.9%
Net Investment Income (Loss)	1,131.7	568.3	563.4	99.1%
Net Asset Transfers	—	107.0	(107.0)	(100.0%)
Other Income	13.5	(1.3)	14.8	1,138.5%
Total Additions to Plan Net Assets	\$1,605.1	\$1,125.7	\$479.4	42.6%
DEDUCTIONS:				
Benefits Paid	\$ 579.8	\$ 550.0	\$ 29.8	5.4%
Refunds of Contributions	22.8	21.9	0.9	4.1%
Net Asset Transfers	—	107.0	(107.0)	(100.0%)
Administrative Expense	7.4	6.6	0.8	12.1%
Other Deductions	2.3	3.1	(0.8)	(25.8%)
Total Deductions from Plan Net Assets	\$ 612.3	\$ 688.6	(\$ 76.3)	(11.1%)
Total Changes in Plan Net Assets	\$ 992.8	\$ 437.1	\$555.7	127.1%

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

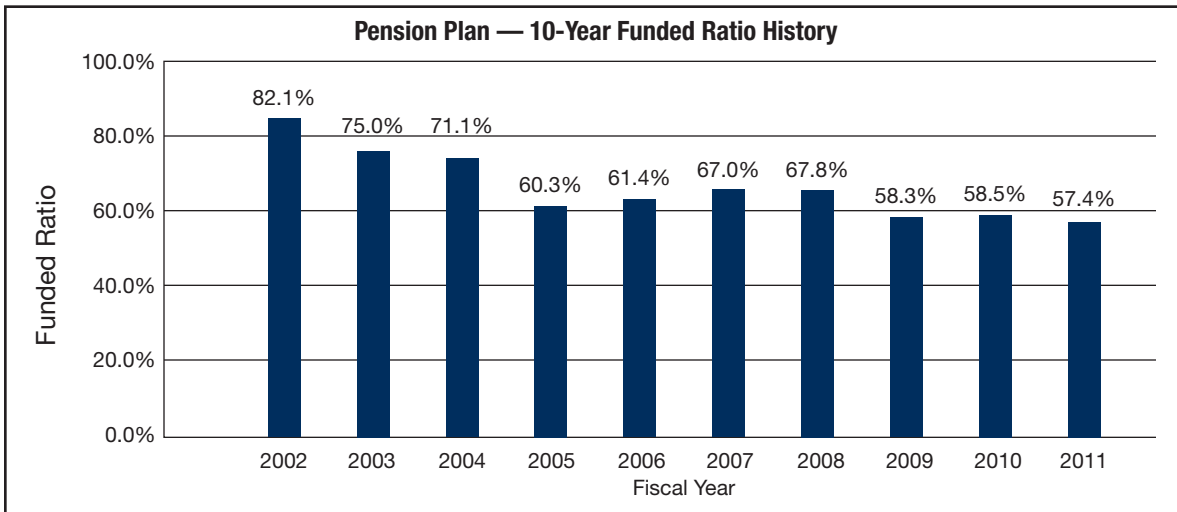


Funding Progress

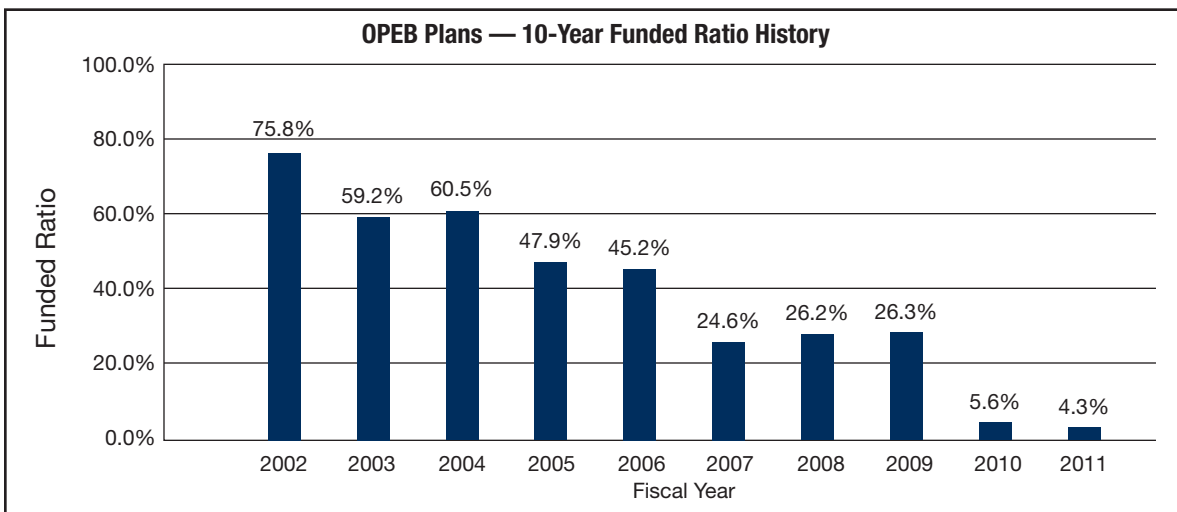
The primary measure of a benefit plan’s progress is its funded status or funded ratio, which compares the assets available to the benefits that must be paid. As of June 30, 2011, the funded ratio for the pension plan was 57.4%. This means that the actuarial value of the retirement system’s assets is 57.4% of the projected amount needed to pay for both current retirees and the accrued benefit for future retirees.

The OPEB plans, more commonly known as the medical subsidy, have a funded ratio at June 30, 2011 of 4.3%. 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 to the majority of current active members.

- The actuarial accrued liability for the Pension Plan was \$4,257.7 billion at June 30, 2011.
- The actuarial value of assets available to pay pension benefits was \$5,740.5 billion.
- The Pension Plan funded ratio was 57.4%.



- The actuarial accrued liability for the OPEB Plans was \$777.6 million at June 30, 2011.
- The actuarial value of assets available to pay OPEB benefits was \$33.2 million.
- The OPEB Plans’ funded ratio was 4.3%.



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.

Funded ratios shown in both graphs above for fiscal years prior to 2007 were calculated using a different actuarial method and therefore are not comparable on a consistent basis.

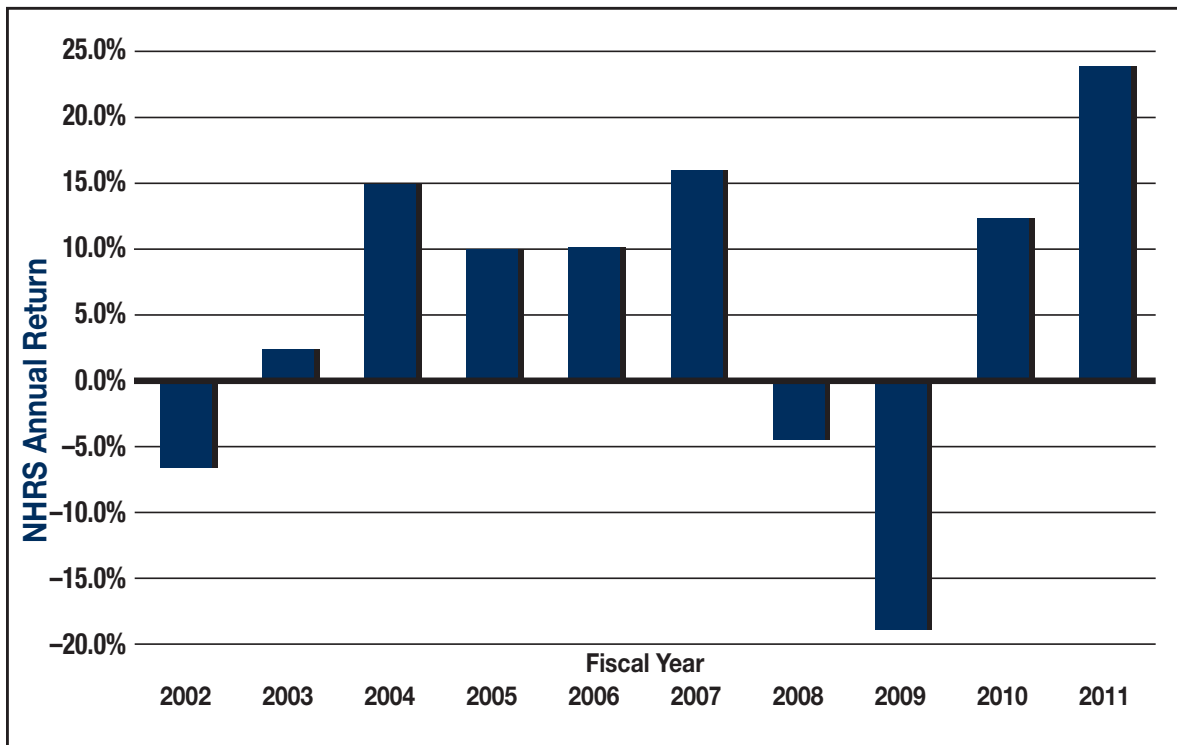
Investment Performance

The results of the Plans' investment program for the fiscal year ended June 30, 2011 are as follows:

- For fiscal year 2011, the total fund investment return of 23.0% outperformed the total fund custom benchmark's return of 22.1%.
- Positive returns were experienced in all asset classes in fiscal year 2011: domestic equity (31.2%); non-US equity (34.2%); fixed income (7.9%); real estate (14.9%); and alternative investments (9.7%).
- Investment returns are reported net of investment expenses and are 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 2011	Annualized		
		3 year	5 Year	10 Year
Total NHRS Fund	23.0%	4.4%	4.7%	5.2%
Total Fund Custom Index	22.1%	4.1%	4.7%	5.5%

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



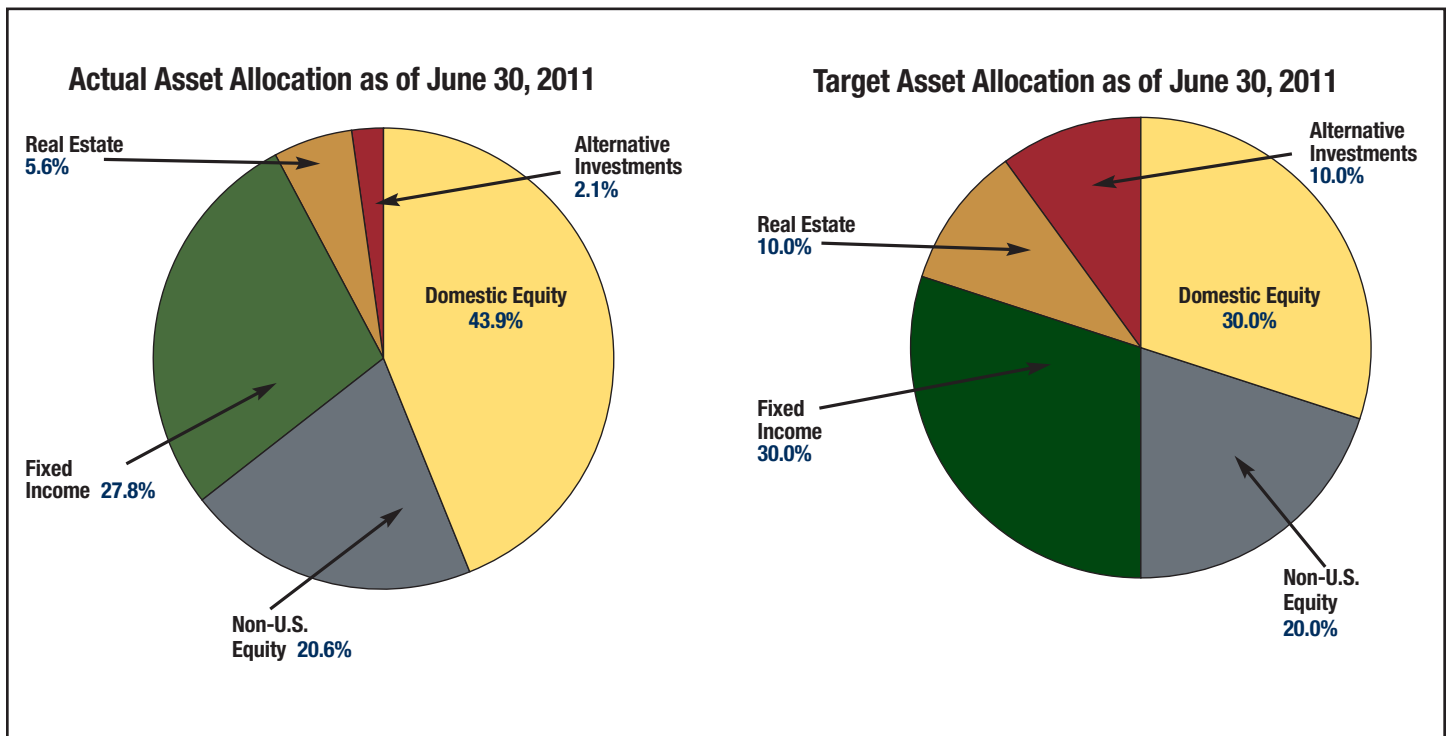
Diversification of Investments

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 asset allocation targets and ranges were approved by the Board of Trustees on July 13, 2010 based on a recommendation of the IIC.

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 allocation for NHRS are shown on the pie charts below. Domestic Equity (43.9%), which is primarily made up of stocks in U.S. companies, had the highest allocation at the close of fiscal year 2011. Fixed Income (27.8%) was next; this asset class contains bonds that are designed to provide current income and preserve capital. Non-U.S. Equity (20.6%), which contains stocks in foreign companies, had the third-largest allocation. The Real Estate allocation was at 5.6%; this asset class consists of directly owned properties as well as investments in commingled real estate funds. Finally, the Alternative Investments asset class, which consists mostly of private equity and limited partnerships that are not traded in the public market, had an allocation at year end of 2.1%. More detailed information regarding the NHRS investment portfolio can be found in the Comprehensive Annual Financial Report or the Comprehensive Annual Investment Report, both of which can be found at www.nhrs.org.



Member Profiles

PENSION PLAN					Total
	Employees	Teachers	Police	Fire	
Active Members					
Average Age	48.6	45.9	39.1	40.7	46.6
Average Service	10.5	12.7	10.8	12.6	11.4
Average Annual Pay	\$43,614	\$56,123	\$62,835	\$67,391	\$50,621
Retired Members					
Average Age	70.5	68.9	62.4	64.8	68.8
Average Annual Pension	\$12,474	\$21,321	\$33,876	\$35,599	\$18,959
Total Membership					
Active	25,539	18,466	4,130	1,603	49,738
Retired	13,487	9,427	2,880	1,336	27,130
Terminated — Vested	613	811	60	12	1,496

OPEB PLANS (medical subsidy)	One-Person Coverage		Two-Person Coverage		
	Number of Retirees	Pre-65	Post-65	Pre-65	Post-65
		10,577	1,912	6,845	1,481

DISTRIBUTION OF RETIREES BY YEARS OF CREDITED SERVICE

(\$ in Millions)

	0–9 Years	10–19 Years	20–29 Years	30+ Years	Total
Pension Plan					
Total Retirees	3,178	8,359	9,594	5,999	27,130
Average Annual Benefits	\$19.1	\$81.8	\$221.9	\$191.5	\$514.3
OPEB Plans					
Total Retirees	412	512	5,707	3,946	10,577
Average Annual Benefits	\$2.1	\$2.8	\$31.3	\$23.5	\$59.7

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.

Contact Information

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Website: 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, 2010.


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.


Award for Outstanding Achievement in Popular Annual Financial Reporting


PRESENTED TO

New Hampshire Retirement System

for the Fiscal Year Ended
June 30, 2010




President


Executive Director