

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, 2012**



NHRS
New Hampshire Retirement System

NHRS Mission

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.



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, 2011.

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, 2011



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

Lisa Shapiro, Ph.D., Chair
Richard Gustafson, Ph.D.
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Ex Officio Member

Catherine Provencher, 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
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Hershel Sosnoff
Patrick O'Donnell
Catherine Provencher, State Treasurer

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 for the fiscal year ended June 30, 2012. This report is presented in conformity with Generally Accepted Accounting Principles and 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 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 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 48,625 active, contributing members. Group I members make up 88.2 percent of the total active membership. Group II members make up 11.8 percent of the total active membership.

NHRS has 28,454 pension recipients and 10,461 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 decreased by \$116.8 million (–2.0%) from the prior year’s net asset balance reflecting the continuing volatility in the financial market.
- Net investment income during fiscal year 2012 was \$32.8 million, a \$1,098.9 million (–97.1%) decrease over the prior fiscal year. The net investment income for fiscal year 2012 reflects a time-weighted investment return for the total fund during the year of 0.9% compared to a time-weighted return of 23.0% for the fiscal year ended June 30, 2011.
- The total contributions received during the fiscal year were \$503.1 million. For fiscal year 2011, total contributions received were \$459.9 million.
- Employer contributions for fiscal year 2012 decreased to \$303.5 million (–1.3%) compared with employer contributions in fiscal year 2011 of \$307.5 million. The decrease in employer contributions in fiscal year 2012 was due to the recertification of employer rates in August 2011 and a decrease in the total covered payroll.
- Member contributions were \$199.6 million in fiscal year 2012, an increase of 31.0% over fiscal year 2011 member contributions of \$152.4 million. The increase is primarily due to higher contribution rates enacted by the Legislature effective July 1, 2012. Voluntary member contributions decreased by \$4.9 million (–41.4%) over fiscal year 2011.
- Benefits paid during fiscal year 2012 were \$605.6 million, an increase of 4.4% over the benefits paid in fiscal year 2011 of \$579.8 million. The increase in benefits paid in fiscal year 2012 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 2012 legislative session which:

- Modified the calculation of Average Final Compensation (AFC) for members not vested prior to Jan. 1, 2012, by changing the “compensation over base pay” factor used in the AFC formula from a dollar average to a percentage average.
- Clarified the date from which NHRS must begin calculating a 7-year average of Extra or Special Duty Pay for Group II (Police and Fire) members vested prior to Jan. 1, 2012. This change excludes from the calculation any months prior to July 1, 2009, which is when ESDP began to be separately reported to NHRS.
- Clarified the number of years of creditable service Group II (Police and Fire) members in service prior to July 1, 2011, but not vested prior to Jan. 1, 2012, must have in order to qualify for the supplemental disability benefit available to eligible Accidental Disability retirees.
- Changed the annual effective date of changes to the member interest rate from a fiscal year to a calendar year.
- Clarified the definition of “compensation over base pay” for members not vested prior to Jan. 1, 2012.
- Clarified that the maximum benefit limit for members hired before July 1, 2009, is 100 percent of Earnable Compensation and the maximum benefit limit for members hired after that date, and not vested by Jan. 1, 2012, is the lesser of 85 percent of AFC or \$120,000 per year.
- Modified the definition of “part-time” for NHRS retirees employed by NHRS-participating employers.
- Changed the date by which NHRS Trustees must approve the retirement system’s Comprehensive Annual Financial Report from Dec. 1 to Dec. 31 of each year.
- Repealed RSA 100-A:53, II; RSA 100-A:53-e, II; RSA 100-A:16, II(h); and RSA 100-A:16, II(j), relative to the Special Account.
- Repealed RSA 100-A:16, III-a, commonly known as the employer “spiking” assessment.

Major Accomplishments

- Hired a new Executive Director with significant financial services experience.
- Developed and adopted a three-year strategic plan and specific action plans for each operating unit.
- Increased and enhanced member education opportunities by creating online presentations specifically geared to individual benefit tiers.
- Implemented extensive pension database modifications in response to far-reaching legislative changes enacted in 2011.
- Reviewed, revised and adopted core NHRS policies and procedures across all areas of operation.
- Conducted an Asset Liability Modeling Study which resulted in allocation policy recommendations adopted by the Board of Trustees in September 2012.
- Developed Asset Class Guidelines for Domestic Equity, Non-U.S. Equity, Fixed Income, Real Estate, and Alternative Investments.

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

(\$ in millions)

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

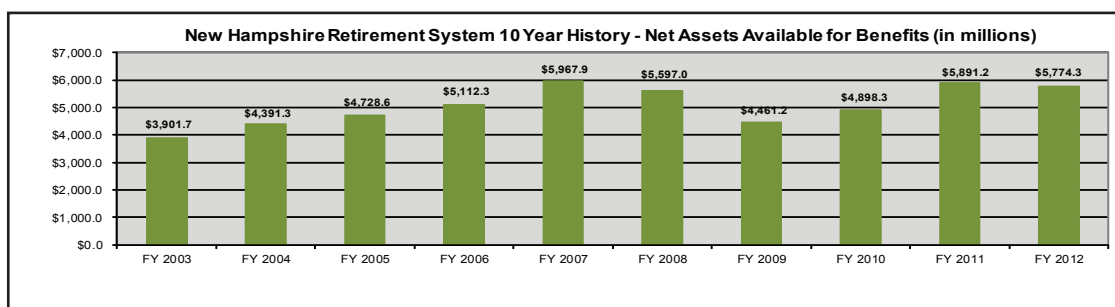
	As of June 30, 2012	As of June 30, 2011	Amount Increase (Decrease)	Percent Increase (Decrease)
Cash	\$ 6.9	\$ 3.8	\$ 3.1	81.6%
Receivables	246.0	309.8	(63.8)	(20.6%)
Investments	5,702.3	5,853.3	(151.0)	(2.6%)
Other Assets	0.7	0.2	0.5	250.0%
Total Assets	\$5,955.9	\$6,167.1	(\$ 211.2)	(3.4%)
Other Liabilities	181.6	276.0	(94.4)	(34.2%)
Total Liabilities	\$ 181.6	\$ 276.0	(\$ 94.4)	(34.2%)
Net Assets Held in Trust for Benefits	\$5,774.3	\$5,891.1	(\$ 116.8)	(2.0%)

**Summary Comparative Statements of Changes in Plan New Assets:
Combined Pension and OPEB Plans**

(\$ in millions)

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

	As of June 30, 2012	As of June 30, 2011	Amount Increase (Decrease)	Percent Increase (Decrease)
ADDITIONS:				
Employer Contributions	\$ 303.5	\$ 307.5	(\$ 4.0)	(1.3%)
Member Contributions	199.6	152.4	47.2	31.0%
New Investment Income (Loss)	32.8	1,131.7	(1,098.9)	(97.1%)
Other Income	(12.2)	13.5	(25.7)	(190.4%)
Total Additions to Plan Net Assets	\$523.7	\$1,605.1	(\$1,081.4)	(67.4%)
DEDUCTIONS:				
Benefits Paid	\$ 605.6	\$ 579.8	\$ 25.8	4.4%
Refunds of Contributions	26.5	22.8	3.7	16.2%
Administrative Expense	6.2	7.4	(1.2)	(16.2%)
Other Deductions	2.2	2.3	(0.1)	(4.3%)
Total Deductions from Plan Net Assets	\$ 640.5	\$ 612.3	\$ 28.2	4.6%
Total Changes in Plan Net Assets	(\$ 116.8)	\$ 992.8	(\$1,109.6)	(111.8%)

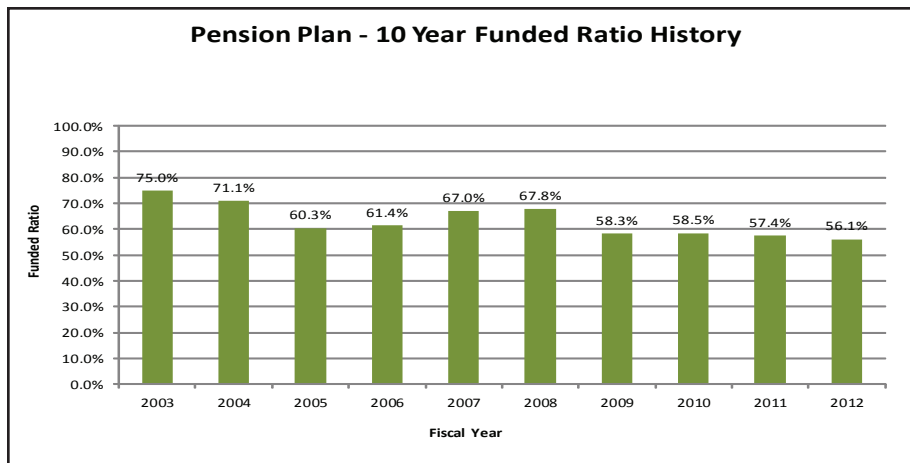


Funding Progress

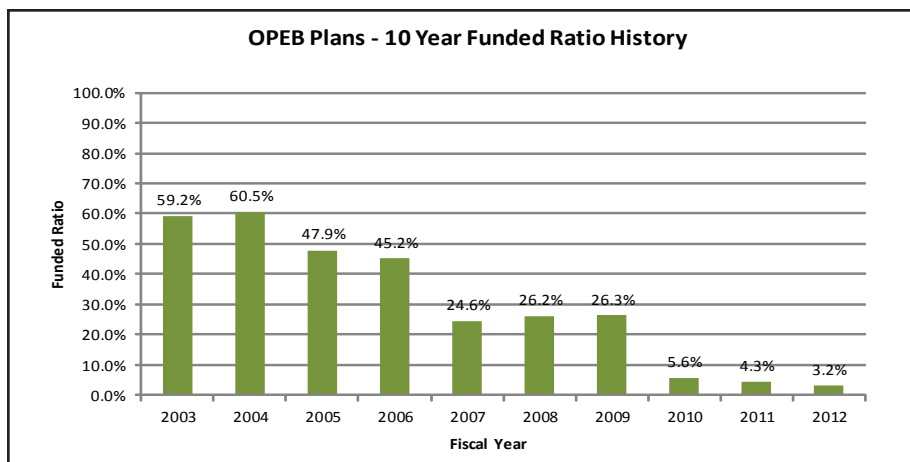
The primary measure of a benefit plan's progress is its funded status, or funded ratio, which compares the assets available to the benefits that must be paid. As of June 30, 2012, the funded ratio for the pension plan was 56.1%. This means that the actuarial value of the retirement system's assets is 56.1% 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, 2012, of 3.2%. 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.

- The unfunded actuarial accrued liability for the Pension Plan was \$ 4,543.7 million at June 30, 2012
- The actuarial value of assets available to pay pension benefits was \$ 5,817.9 million at June 30, 2012
- The Pension Plan funded ratio was 56.1% at June 30, 2012



- The unfunded actuarial accrued liability for the OPEB Plans was \$ 728.4 million at June 30, 2012
- The actuarial value of assets available to pay OPEB benefits was \$ 24.3 million at June 30, 2012
- The OPEB Plans' funded ratio was 3.2% at June 30, 2012



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.

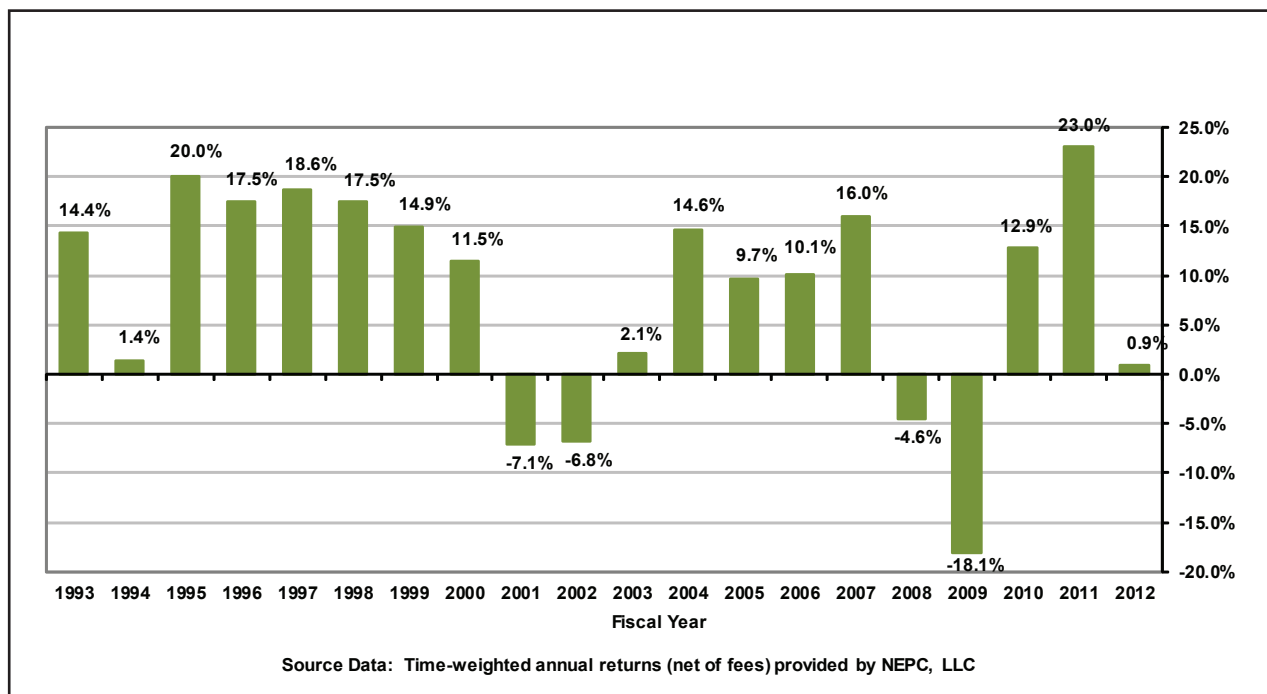
Investment Performance

Investment returns are reported net of investment expenses (unless specifically noted) and are measured against a total fund custom index. The total fund custom index consists of major market indices in proportion to the retirement system's asset allocation. The results of the plans' investment program for the period ended June 30, 2012, are as follows:

- For fiscal year 2012, the total fund investment return of 0.9% underperformed the total fund custom index return of 1.7%. For this period, the individual asset classes generated the following performance: domestic equity 2.0%; non-U.S. equity -12.7%; fixed income 7.6%; real estate 10.7% and alternative investments 1.6%.
- The gross-of-fees return of 1.2% for this period ranked at the median of the public fund universe.
- For the three-year period ended June 30, 2012, the total fund investment return of 11.9% outperformed the total fund custom index return of 11.7%.
- The gross-of-fees return for the 3-year period ended June 30, 2012 was 12.2% and ranked near the top quartile of the public fund universe.

	Current Year 2012	Annualized		
		3 Year	5 Year	10 Year
Total NHRS Fund	0.9%	11.9%	1.8%	6.0%
Total Fund Custom Index	1.7%	11.7%	2.1%	6.5%

Twenty 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.

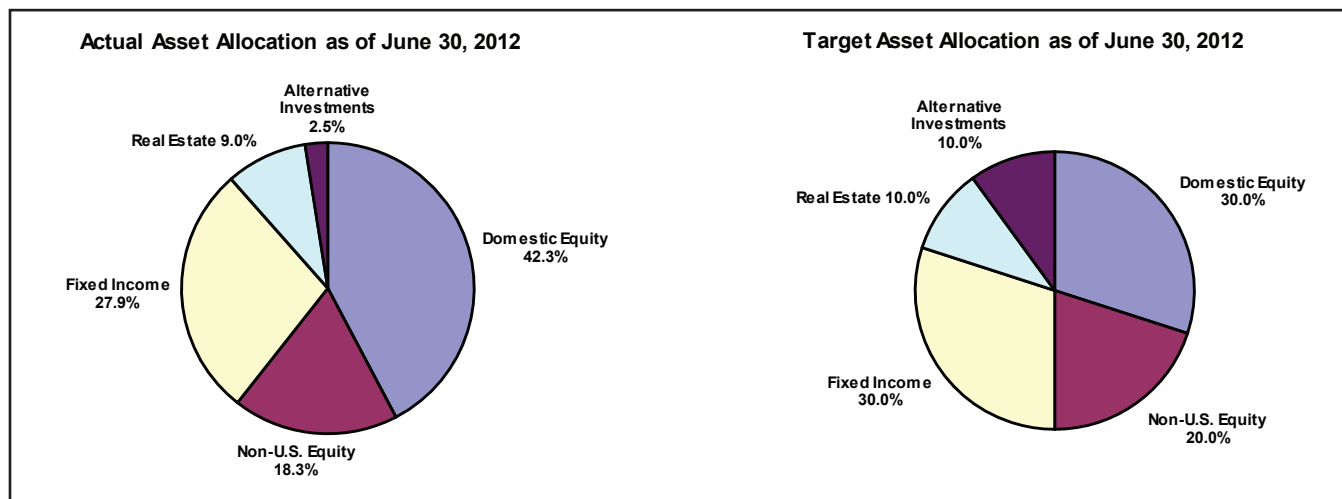
The New Hampshire Retirement System Board of Trustees, with research and input from NHRS investment staff, outside experts, and a recommendation from the Independent Investment Committee (IIC), set an investment policy that includes asset allocation targets and acceptable ranges.

The 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, 2012 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 includes directly-owned properties as well as investments in commingled real estate funds. 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 or the Comprehensive Annual Investment Report, which are available at www.nhrs.org.

Actual Asset Allocation Versus Target Asset Allocation



Note: The NHRS Board of Trustees approved a revised asset allocation on September 11, 2012, after the close of fiscal year 2012. Additional information on the revised asset allocation is available at:

http://www.nhrs.org/News/Files/09_11_12_Asset_Allocation.pdf

PENSION PLAN	E	T	P	F	Total
	Employee	Teacher	Police	Fire	
Active Members					
Average Age	49.1	46.2	39.3	41.0	46.9
Average Service	11.0	13.1	10.9	12.8	11.8
Average Annual Pay	\$43,514	\$57,079	\$63,590	\$70,329	\$51,162
Retired Members					
Average Age	70.6	69.2	62.6	64.7	69.0
Average Annual Pension	\$12,591	\$21,320	\$34,731	\$36,461	\$19,119
Total Membership					
Active	24,747	18,161	4,118	1,599	48,625
Retired	14,141	9,956	2,981	1,376	28,454
Terminated - Vested	721	588	54	9	1,372

OPEB PLANS (Medical Subsidy)	One-Person Coverage		Two-Person Coverage		
	Number of Retirees	Pre-65	Post-65	Pre-65	Post-65
		10,461	1,819	7,045	1,213

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	3,338	8,830	10,026	6,260	28,454
Total Annual Benefits	\$20.4	\$87.6	\$234.6	\$201.4	\$544.0
OPEB Plans					
Total Retirees	396	505	5,658	3,902	10,461
Total Annual Benefit	\$2.0	\$2.7	\$30.2	\$22.5	\$57.4

Contact Information

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Hours of Operation

Monday–Friday

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