

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, 2013

Our Mission

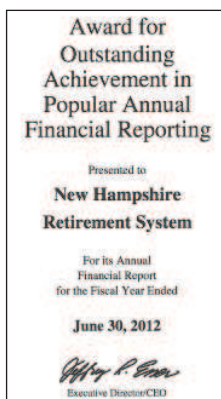
The New Hampshire Retirement System is a promise keeper. Our role is that of a fiduciary — administering the retirement benefit commitments made by our participating employers to their employees who are our members — according to the plan provisions as enacted by the State Legislature. Our ability to 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, 2012.

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.



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
Hershel Sosnoff
David McCrillis
Vacant

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John Beardmore, State of New Hampshire

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
David Jensen
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, 2013. 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. Note: During the fiscal year ended June 30, 2013, NHRS adopted the provisions of GASB statement no. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

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 48,688 active, contributing members. Group I members make up 88.1 percent of the total active membership. Group II members make up 11.9 percent of the total active membership.

NHRS has 29,729 pension recipients and 10,264 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 position increased by \$653.7 million (11.3%) from the prior year's net position, reflecting the improvement in the financial market.
- Net investment income during fiscal year 2013 was \$818.2 million, a \$785.4 million (2,394.5%) increase over the prior fiscal year. The net investment income for fiscal year 2013 reflects a time-weighted return for the total fund during the year of 14.5% compared to a time-weighted investment return of 0.9% for the fiscal year ended June 30, 2012.
- The total contributions received during the fiscal year were \$496.0 million. For fiscal year 2012, total contributions received were \$503.1 million.
- Employer contributions for fiscal year 2013 decreased to \$299.5 million (-1.3%) compared with employer contributions in fiscal year 2012 of \$303.5 million. The decrease in employer contributions in fiscal year 2013 was primarily due to the fact that FY 2012 contained one more pay period than FY 2013.
- Member contributions were \$196.5 million in fiscal year 2013, a decrease of (-1.6%) over fiscal year 2012 member contributions of \$199.6 million. The decrease in member contributions is primarily due to the fact that FY 2012 contained one more pay period than FY 2013. Overall member normal contributions decreased by (-0.9%) over the prior fiscal year. Voluntary member contributions decreased by \$1.3 million (-18.91%) over fiscal year 2012.
- Benefits paid during fiscal year 2013 were \$628.6 million, an increase of 3.8% over the benefits paid in fiscal year 2012 of \$605.6 million. The increase in benefits paid in fiscal year 2013 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 2013 legislative session which:

- Required NHRS-participating employers to report monthly to the retirement system information regarding NHRS retirees on their payroll, including hours worked and all compensation paid. The reporting requirement takes effect January 1, 2014, and is repealed effective January 1, 2019.
- Required the retirement system to provide annual written notices to NHRS retirees regarding the statutory limitations on part-time employment with NHRS-participating employers.
- Allowed individuals elected or appointed to the offices of town clerk and tax collector for the same employer to satisfy NHRS membership eligibility requirements by using both offices, even if the positions were not formally combined per RSA 41:45-a.
- Eliminated the application of gainful occupation reductions to the retirement allowances of Group II (Police and Fire) accidental disability beneficiaries who have years of service plus years of accidental disability retirement that total at least 20 years and who have attained the age of 45.

Major Accomplishments

- Achieved an investment return of 14.5%, which exceeded internal benchmarks and placed NHRS in the top decile of public fund investment performance.
- Adopted a three-year strategic plan.
- Developed and implemented Key Performance Measures (KPMs).
- Initiated a system-wide Performance Improvement Project ("PIP") to review all work flows and processes.
- Instituted a member and beneficiary survey mechanism to solicit feedback on customer service.
- Implemented a public awareness communication strategy, "NHRS ... Now You Know," which is intended to improve understanding of key pension topics.
- Established a revised performance appraisal process and implemented management training to improve productivity and service quality.
- Conducted three RFPs which resulted in the Board unanimously approving the following recommendations: Retention of GRS as the retirement system's actuarial services provider; selecting BNY Mellon as the trust fund custodian; and retention of Foster Pepper as legal investment counsel.
- Implemented revised actuarial factors.
- Obtained IRS approval of a Voluntary Compliance filing for administration of mandatory distributions.
- Reduced the inventory of pending administrative appeals by 40%.

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

(\$ in millions)

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

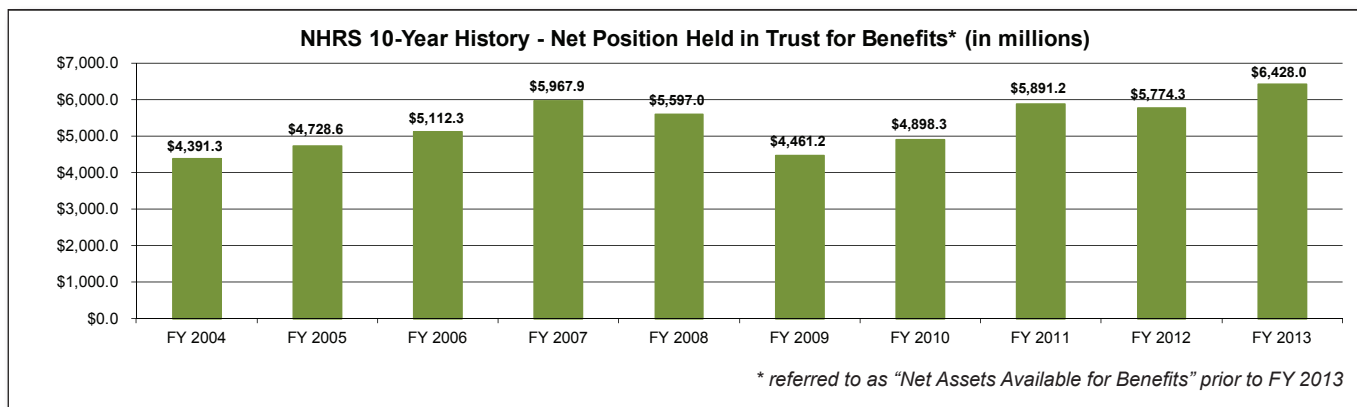
	As of June 30, 2013	As of June 30, 2012	Amount Increase (Decrease)	Percent Increase (Decrease)
Cash	\$ 7.7	\$ 6.9	\$ 0.8	11.6%
Receivables	364.5	246.0	118.5	48.2%
Investments	6,353.1	5,702.3	650.8	11.4%
Other Assets	0.3	0.7	(0.4)	(57.1%)
Total Assets	\$6,725.6	\$5,955.9	\$ 769.7	12.9%
Other Liabilities	297.6	181.6	116.0	63.9%
Total Liabilities	\$ 297.6	\$ 181.6	\$ 116.0	63.9%
Net Position End of Year	\$6,428.0	\$5,774.3	\$ 653.7	11.3%

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

(\$ in millions)

The Statements of Changes in 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, 2013	As of June 30, 2012	Amount Increase (Decrease)	Percent Increase (Decrease)
ADDITIONS:				
Employer Contributions	\$ 299.5	\$ 303.5	(\$ 4.0)	(1.3%)
Member Contributions	196.5	199.6	(\$ 3.1)	(1.6%)
Net Investment Income (Loss)	818.2	19.6	\$798.6	4,074.5%
Other Income	1.0	1.0	\$0.0	0.0%
Total Additions to Net Position	\$1,315.2	\$ 523.7	\$791.5	151.1%
DEDUCTIONS:				
Benefits Paid	\$ 628.6	\$ 605.6	\$ 23.0	3.8%
Refunds of Contributions	23.2	26.5	(\$ 3.3)	(12.5%)
Administrative Expense	7.0	6.2	\$0.8	12.9%
Other Deductions	2.7	2.2	\$0.5	22.7%
Total Deductions from Net Position	\$ 661.5	\$ 640.5	\$ 21.0	3.3%
Total Changes in Net Position	\$ 653.7	(\$ 116.8)	\$770.5	659.7%

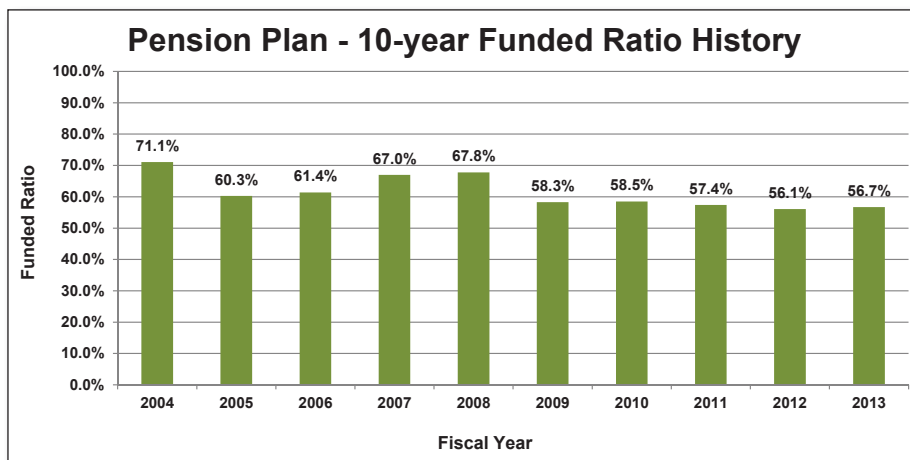


Funding Progress

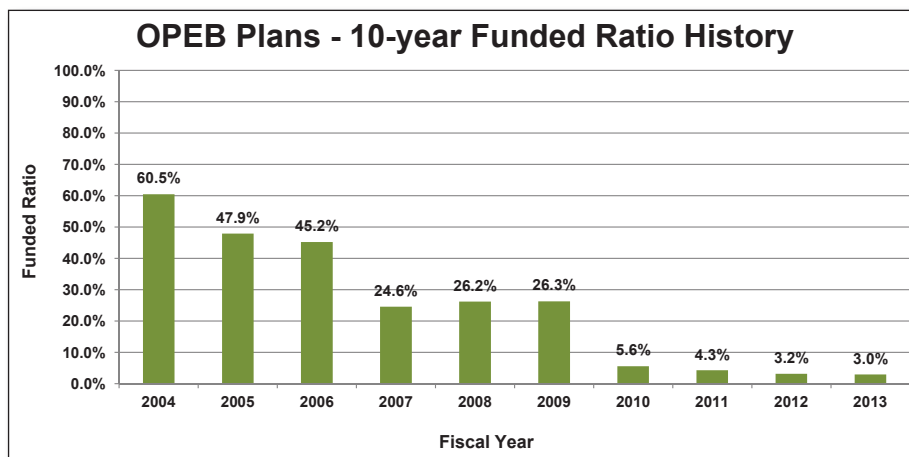
The primary measure of a benefit plan's progress is its funded status, or funded ratio, which compares the assets available to the benefits that must be paid. As of June 30, 2013, the funded ratio for the pension plan was 56.7%. This means that the actuarial value of the retirement system's assets is 56.7% 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, 2013, of 3.0%. 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 \$4,638.1 million at June 30, 2013.
- The actuarial value of assets available to pay pension benefits was \$6,070.7 million at June 30, 2013.
- The Pension Plan funded ratio was 56.7% at June 30, 2013.



- The unfunded actuarial accrued liability for the OPEB Plans was \$710.0 million at June 30, 2013.
- The actuarial value of assets available to pay OPEB benefits was \$21.8 million at June 30, 2013.
- The OPEB Plans' funded ratio was 3.0% at June 30, 2013.



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.

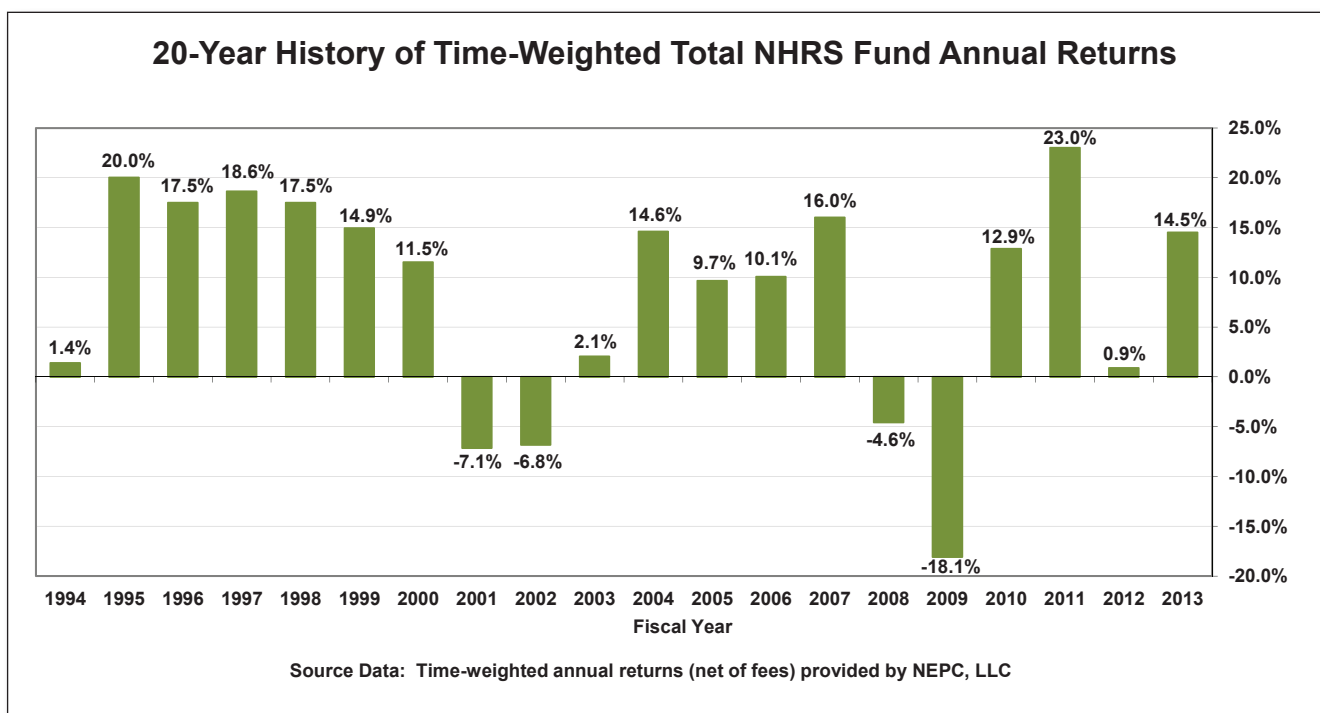
Funded ratios shown in both graphs above for fiscal years prior to 2007 were calculated using a different actuarial method and therefore are not comparable on a consistent basis.

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, 2013, are as follows:

- For fiscal year 2013, the total fund investment return of 14.5% outperformed the total fund custom index return of 13.5%. For this period, the individual asset classes generated the following performance: domestic equity 23.2%; non-U.S. equity 13.8%; fixed income 2.8%; real estate 12.3%; and alternative investments 8.7%.
- The gross-of-fees return of 14.9% for this period ranked in the top decile of the public fund universe.
- For the three-year period ended June 30, 2013, the total fund investment return of 12.4% outperformed the total fund custom index return of 12.1%.
- The gross-of-fees return for the three-year period ending June 30, 2013 was 12.7%, which also ranked in the top decile of the public fund universe.

	Current Year 2013	Annualized		
		3-Year	5-Year	10-Year
Total NHRS Fund	14.5%	12.4%	5.6%	7.2%
Total Fund Custom Index	13.5%	12.1%	5.5%	7.4%



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.

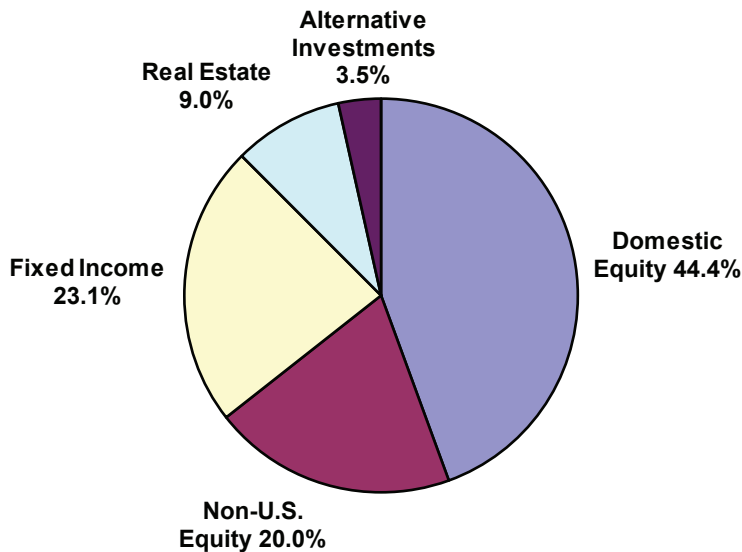
The IIC manages investments based on the Trustees' policies; continuously monitors and evaluates performance; and makes determinations regarding the hiring and retention of fund managers.

The actual and target asset allocations as of June 30, 2013 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.

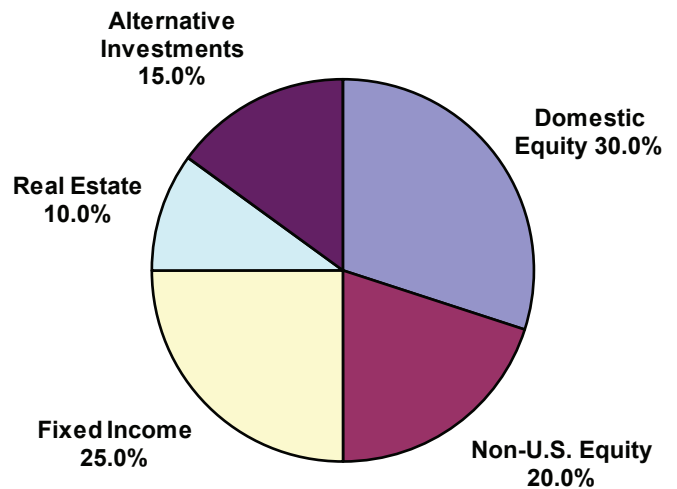
More detailed information regarding the NHRS investment portfolio can be found in the Comprehensive Annual Financial Report or the Comprehensive Annual Investment Report, which are available at www.nhrs.org.

Actual Asset Allocation Versus Target Asset Allocation

Actual Asset Allocation as of June 30, 2013



Target Asset Allocation as of June 30, 2013



Member and Retiree Data

PENSION PLAN

	E Employee	T Teacher	P Police	F Fire	Total
Active Members					
Average Age	49.1	46.4	39.3	41.1	47.0
Average Service	11.1	13.3	10.9	13.0	12.0
Average Annual Pay	\$43,502	\$57,506	\$63,715	\$72,007	\$51,383
Retired Members					
Average Age	70.8	69.5	62.8	65.1	69.2
Average Annual Pension	\$12,758	\$21,355	\$34,859	\$36,595	\$19,279
Total Membership					
Active	24,809	18,084	4,187	1,608	48,688
Retired	14,172	10,407	3,163	1,447	29,729
Terminated - Vested	656	548	51	6	1,261

OPEB PLANS (Medical Subsidy)

	Number of Retirees	One-Person Coverage		Two-Person Coverage	
		Pre-65	Post-65	Pre-65	Post-65
		10,264	1,269	7,543	1,017

Contact Information

New Hampshire Retirement System

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Hours of Operation

Monday–Friday
8:00 a.m. to 4:00 p.m.