

New Hampshire Retirement System

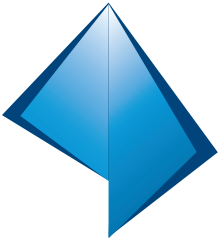
**A Component Unit Of
The State Of
New Hampshire**

**Summary Annual
Financial Report
For The Fiscal Year
Ended
June 30, 2008**



NHRS

New Hampshire Retirement System



NHRS

New Hampshire Retirement System

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November 21, 2008

To: Members of the New Hampshire Retirement System

On behalf of the Board of Trustees, I am pleased to present the Summary Annual Financial Report for the fiscal year ended June 30, 2008. This report provides information about the financial status of the Plans and highlights other changes that occurred during the year.

The total fund investment returns for the fiscal year ended June 30, 2008 were a disappointing -4.6%. This return fell short of the NHRS's total fund customized benchmark of -3.9% and fell well short of the 8.5% long-term investment return assumed for actuarial funding purposes. The investment markets during fiscal year 2008 were volatile and trended downward driven by the sub-prime mortgage crisis, housing-related declines, restrained credit markets and higher energy costs.

Since June 30, 2008, the financial and investment markets have continued to deteriorate as a liquidity crisis in the mortgage and credit markets has blossomed into a global financial crisis of significant proportions. From June 30, 2008 through mid November 2008, the NHRS investment portfolio has experienced significant declines in investment value in the range of 20%-30%. The NHRS is a long-term investor. We are hopeful that stability will return to the investment markets but no prediction can be made of future investment prospects. The Board of Trustees will make any adjustments that, in their judgment, need to be made to keep the NHRS on its path.

The Pension Plan funded ratio increased slightly from 67.0% at June 30, 2007 to 68.7% at June 30, 2008. The OPEB Plans experienced similar increases in funded status compared to the prior year, rising to 26.2% at June 30, 2008 from 24.6% at June 30, 2007. The improvement in the funded ratios from year to year occurred primarily because the actuarial value of assets (5 year smoothed average of market values) grew at a rate in excess of the rate of growth in the actuarial accrued liabilities. The Pension Plan increase also reflected a \$250 million transfer of assets in from the Special Account as required by legislation.

Legislation was introduced in the 2008 legislative session (HB 1645) to significantly reform retirement statutes with the goal of enhancing the long-term viability of the NHRS. HB 1645 in its final form was signed into law on June 30, 2008 and it contains a series of important revisions to the laws that govern the NHRS. The changes enacted cover the areas of plan and board governance, including the establishment of an independent investment committee, retiree cost-of-living-adjustments (COLAs) for fiscal year 2008, revised funding and benefit growth parameters for the OPEB Plans and a required transfer to the Pension Plan of \$250 million in assets from the Special Account to increase pension plan assets and restrain employer contribution rate increases. In addition, two new study commissions were established to review future funding options for retiree COLAs and the OPEB Plans.

I would like to express my gratitude to my fellow Board members and NHRS staff who worked diligently to assure the successful operation of the Plans. The Board and I are keenly aware that many dynamic forces will shape and influence the Plans in the coming years. I am confident in our ability to meet these challenges.

Sincerely,

Dr. Lisa K. Shapiro
Chair of the Board of Trustees
New Hampshire Retirement System

Legislative Changes

Legislation was enacted in the fiscal year 2007 legislative session to establish a retirement commission to make recommendations to ensure the long-term viability of the NHRS. The retirement commission issued its report of recommendations in January 2008 and the recommendations addressed diverse issues such as plan funding, plan governance, finance, investments and benefits.

Based on the retirement commission recommendations, HB 1645 was introduced in the fiscal year 2008 legislative session. HB 1645 contained significant reforms to the retirement statutes that govern the NHRS and it was passed into law on June 30, 2008.

The major areas of changes covered by the enactment of HB 1645 include the following:

- * Changes to plan and board governance, including the establishment of an independent investment committee.
- * Retiree cost-of-living-adjustments (COLAs) for fiscal year 2008.
- * Revised funding and benefit growth parameters for the OPEB Plans.
- * The transfer to the Pension Plan of \$250 million from the Special Account to increase pension plan assets and restrain employer contribution rate increases.
- * The establishment of two new study commissions to review future funding options for COLAs and the OPEB Plans.

Financial Highlights

- Net assets decreased by \$370.9 million (6.2%) from the prior year's net asset balance. By comparison, the net asset balance for fiscal year 2007 increased by \$855.6 million over the fiscal year 2006 net asset balance.
- There was a net investment loss during fiscal year 2008 of \$292.8 million compared to net investment income during fiscal year 2007 of \$839.0 million. The net investment loss for fiscal year 2008 reflects a time-weighted return for the total fund during the year of -4.6% compared to a time-weighted investment return of 16.0% for the fiscal year ended June 30, 2007.
- Combined, benefit payments and refunds of contributions in fiscal year 2008 were \$477.5 million exceeding by 69.6 million, the total employer and member contributions received during the fiscal year of \$407.9 million. For fiscal year 2007, combined benefit payments and refunds of contributions were \$425.7 million and total employer and member contributions received were \$451.0 million.
- Employer contributions for fiscal year 2008 increased 39.9% to \$249.9 million compared with employer contributions in fiscal year 2007 of \$178.6. The increase in employer contributions in fiscal year 2008 was primarily due to increased employer contribution rates.
- Member contributions were \$158.0 million in fiscal year 2008, a decrease of 42.0% over fiscal year 2007 member contributions of \$272.4 million. Member contribution rates remained the same for fiscal year 2008. The decrease in member contributions in fiscal year 2008 is primarily due to a significant reduction in voluntary member contributions as a result of the repeal of the non-qualified service purchase program.
- Benefits paid during fiscal year 2008 were \$445.2 million, an increase of 13.7% over the benefits paid in fiscal year 2007 of \$391.6 million. The increase in benefits paid in fiscal year 2008 is primarily due to an increase in the number of retirees, increased average benefit levels for those new retirees and cost-of-living adjustments granted to retirees through legislative action.

Summary Comparative Statements of Plan Net Assets — Combined Plans

(in thousands)

	As of June 30, 2008	As of June 30, 2007	Amount Increase (Decrease)	% Increase Decrease
Cash	\$ 2,838	\$ 3,075	(\$ 237)	(7.7%)
Receivables	114,707	183,486	(68,779)	(37.5%)
Investments	5,541,071	5,919,975	(378,904)	(6.4%)
Cash Collateral on Securities Lending	510,542	804,319	(293,777)	(36.5%)
Other Assets	2,125	3,263	(1,138)	(34.9%)
Total Assets	\$6,171,283	\$6,914,118	(\$742,835)	(10.7%)
Cash Collateral on Securities Lending	510,542	804,319	(293,777)	(36.5%)
Other Liabilities	63,694	141,883	(78,189)	(55.1%)
Total Liabilities	\$ 574,236	\$ 946,202	(\$371,966)	(39.3%)
Net Assets Held in Trust for Benefits	\$5,597,047	\$5,967,916	(\$370,869)	(6.2%)

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

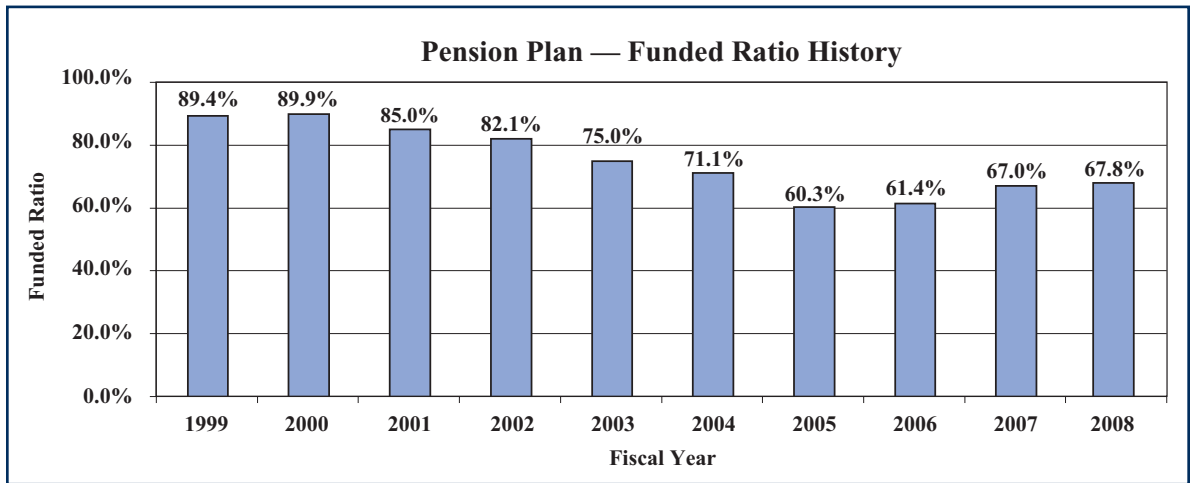
(in thousands)

	As of June 30, 2008	As of June 30, 2007	Amount Increase (Decrease)	% Increase Decrease
ADDITIONS:				
Employer Contributions	\$249,903	\$ 178,639	\$ 71,264	39.9%
Member Contributions	157,985	272,369	(114,384)	(42.0%)
Net Investment Income	(292,773)	838,985	(1,131,758)	(134.9%)
Postemployment Medical Transfers to Pension Plan on Behalf of Employers	—	58,201	(58,201)	(100.0%)
Net Asset Transfers to Pension Plan	—	295,392	(295,392)	(100.0%)
Other Income	2,213	1,030	1,183	114.9%
Total Additions to Plan Net Assets	\$117,328	\$1,644,616	(\$1,527,288)	(92.9%)
DEDUCTIONS:				
Benefits Paid	\$445,174	391,604	\$ 53,570	13.7%
Refunds of Contributions	32,297	34,080	(1,783)	(5.2%)
Postemployment Medical Plan Transfers from OPEB Plans on Behalf of Employers	—	58,201	(58,201)	(100.0%)
Net Asset Transfers from OPEB Plans	—	295,392	(295,392)	(100.0%)
Administrative Expenses	6,895	6,105	790	12.9%
Other Deductions	3,831	3,574	257	7.2%
Total Deductions from Plan Net Assets	\$488,197	\$ 788,956	(\$ 300,759)	(38.1%)
Total Changes in Plan Net Assets	(\$370,869)	\$ 855,660	(\$1,226,529)	(143.3%)

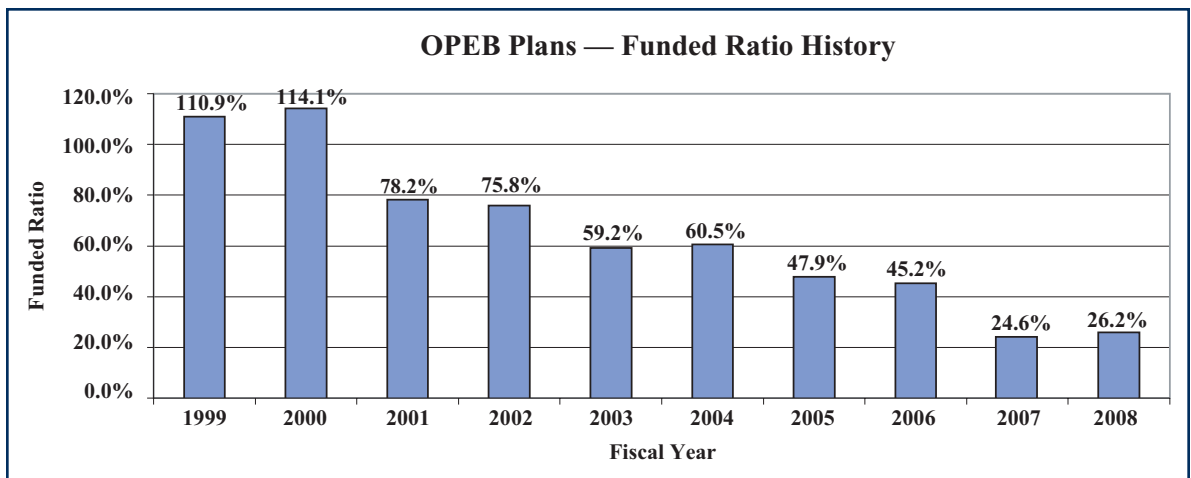
Funding Progress

The primary measure of a benefit plan’s progress is its funded status that compares the assets available to the benefits that must be paid. In order to ensure that your retirement benefits are available to you, the actuary is able to compare the Plans’ assets against what the Plans owe now and in the future. This measure is called the plan funded ratio. It is a long-term process and it is important to keep in mind that all benefits are not due and payable at once.

- Funded ratios shown below for fiscal years prior to 2007 were calculated using a different cost method and therefore are not comparable on a consistent basis.
- The actuarial accrued liability for the Pension Plan was \$7.821 billion at June 30, 2008.
- The actuarial value of assets available to pay pension benefits was \$5.302 billion.
- As a result, the Pension Plan funded ratio was 67.8%.



- Funded ratios shown below for fiscal years prior to 2007 were calculated using a different cost method and therefore are not comparable on a consistent basis.
- The actuarial accrued liability for the OPEB Plans was \$669.9 million at June 30, 2008.
- The actuarial value of assets available to pay OPEB benefits was \$175.2 million.
- As a result, the OPEB Plans’ funded ratio was 26.2%.

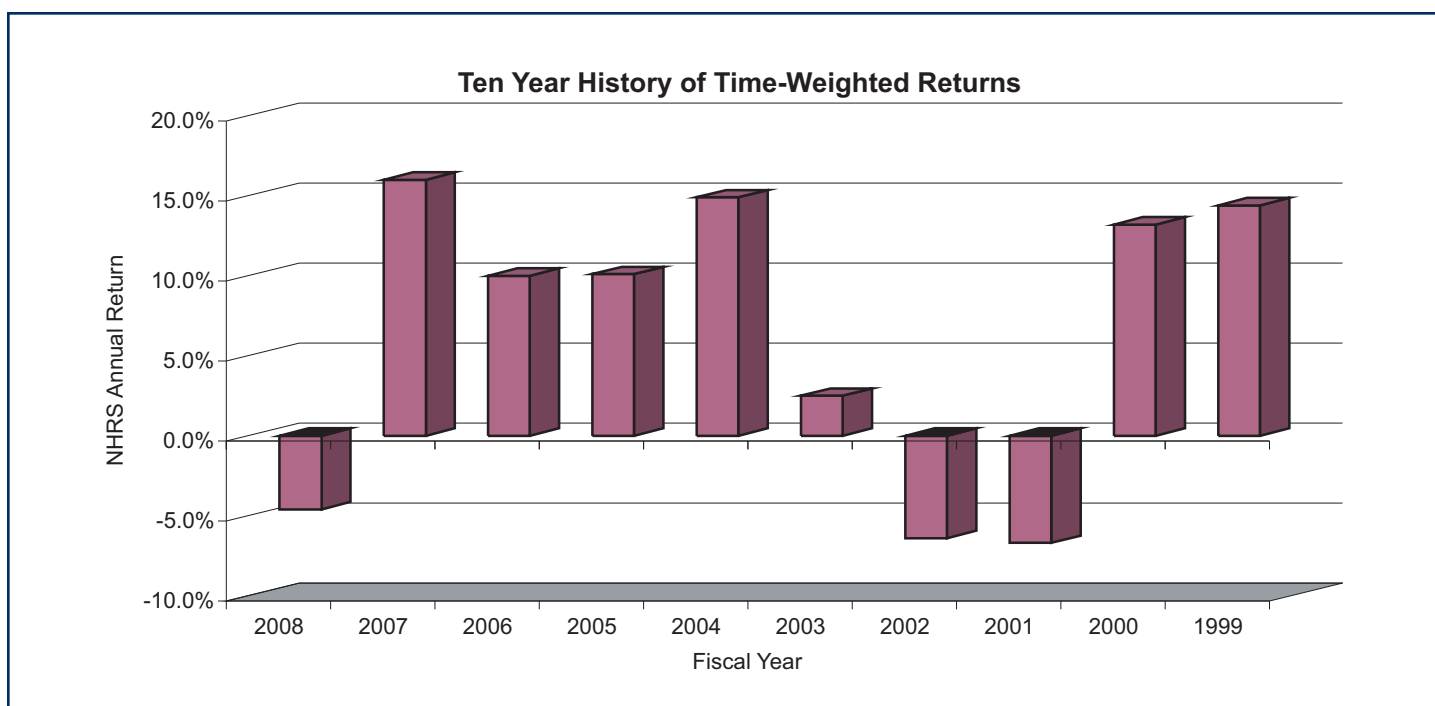


Investment Performance

The results of the Plan's investment program for the fiscal year ended June 30, 2008 are as follows:

- For fiscal year 2008, the total fund experienced a total fund investment return of -4.6% which fell short of the total fund custom benchmark of -3.9% for the same period.
- For fiscal year 2008, the investment climate was volatile and the trend was negative in the latter half of the fiscal year. The downward trend was driven by the subprime mortgage crisis, housing-related declines, restrained credit markets and higher energy costs.
- Negative returns were experienced in domestic equity (-14.2%), international equity (-3.9%) and alternative investments (-9.8%). Positive returns were experienced in fixed income securities (7.6%) and commercial real estate (6.9%).
- Investment return is reported net of investment expenses and is measured against a total fund custom benchmark.
- The total fund custom benchmark consists of major market indices in proportion to the Plans' asset allocation.

	Current Year	Annualized		
	2008	3 year	5 Year	10 Year
Total NHRS Fund	-4.6%	6.8%	8.9%	5.7%
Total Fund Custom Index	-3.9%	7.1%	9.3%	5.9%

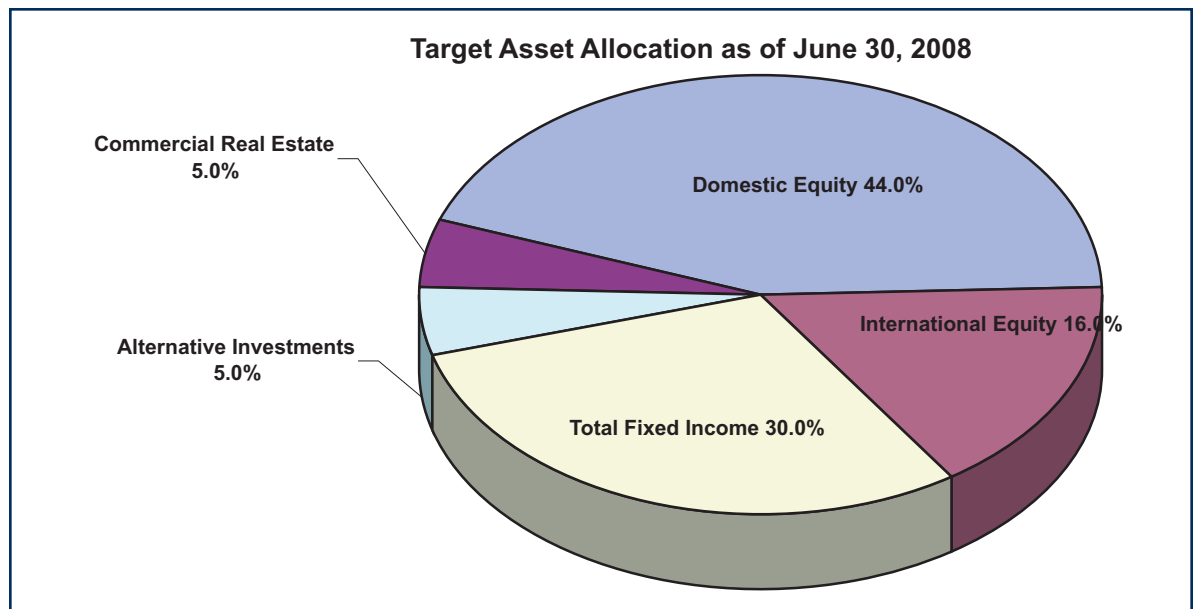
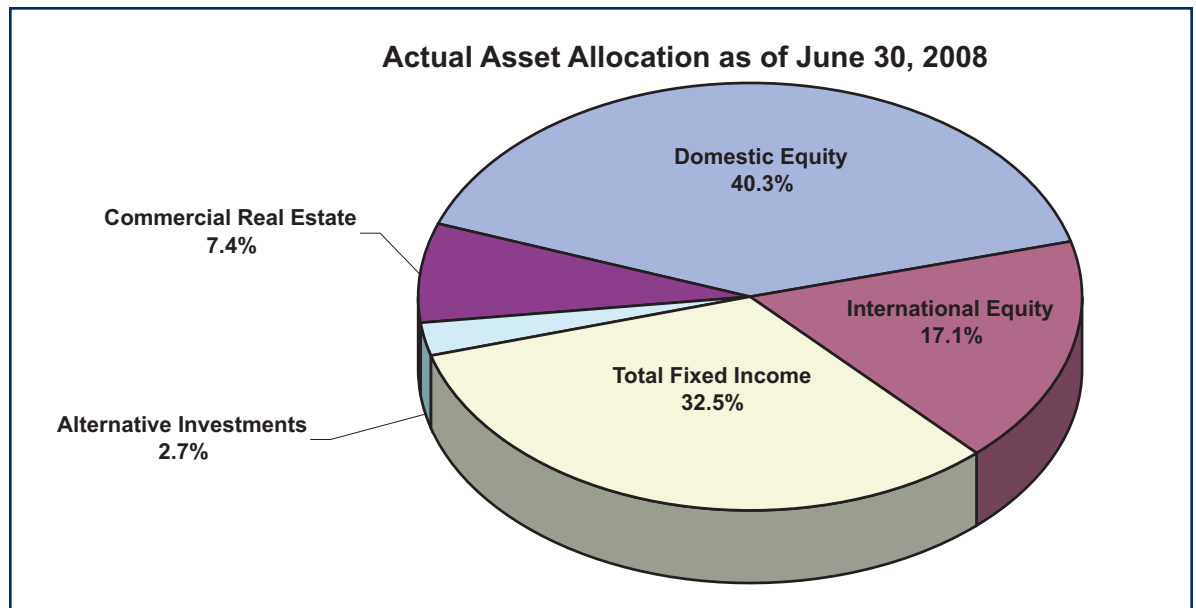


Diversification of Investments





The Plans' investment portfolio is broadly diversified across an array of asset classes in order to provide stability and guard against risk in the capital markets. In total, the Plans have a well-diversified investment program.

- During 2008 fiscal year, the Investment Committee completed a thorough review of the alternative investments portion of the investment program.
- A reduction was made to the commercial real estate and private equity allocations.

Shown below are the actual and target asset allocation as of June 30, 2008.



Member Profiles

PENSION PLAN					Total
	Employees	Teachers	Police	Fire	
Active Members					
Average Age	47.4	45.6	38.5	39.7	45.7
Average Pay	\$38,104	\$51,708	\$56,398	\$59,090	\$45,272
Retired Members					
Average Age	70.4	68.6	61.9	64.0	68.7
Average Pension	\$11,380	\$20,087	\$30,961	\$32,914	\$17,509
Total Membership					
Active	26,507	18,509	4,332	1,640	50,988
Retired	11,580	7,654	2,436	1,200	22,870
Terminated — Vested	749	603	60	11	1,423

OPEB PLANS	One-Person Coverage		Two-Person Coverage		
	Number of Retirees	Pre-65	Post-65	Pre-65	Post-65
		9,584	1,955	5,852	1,526

DISTRIBUTION OF RETIREES BY YEARS OF CREDITED SERVICE

	0–9 Years	10–19 Years	20–29 Years	30+ Years	Total
Pension Plan					
Total Retirees	2,572	6,997	7,422	3,966	21,248
Annual Benefits	\$13,560,442	\$63,310,740	\$159,348,054	\$112,286,105	\$357,762,860
OPEB Plans					
Total Retirees	440	516	5,203	3,425	9,584
Annual Benefits	\$ 2,297,423	\$ 2,889,893	\$ 28,802,271	\$20,168,567	\$ 54,158,154

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) and is available on our website at www.nhrs.org.

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