

# New Hampshire Retirement System

A Component Unit Of  
The State Of New Hampshire



## Summary Annual Financial Report For The Fiscal Year Ended June 30, 2009



**NHRS**

New Hampshire Retirement System



# NHRS

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December 10, 2009

To the Members of the New Hampshire Retirement System:

On behalf of the Board of Trustees of the New Hampshire Retirement System (NHRS), I am pleased to present NHRS' *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2009. This report provides important information describing the financial condition of both the Pension Plan and the Other Post Employment Benefit (OPEB) Plans. It also contains information describing various legislative and other changes that occurred during Fiscal Year 2009.

The twelve months that ended on June 30, 2009, were the most tumultuous financial times that the world has experienced in decades. Poor investment returns and their impact on plans such as the NHRS have been the source of international headlines. The year was marked by significant government interventions that were intended to stabilize world financial systems and global markets. Despite these efforts, equity markets fell sharply and broadly. For example, during Fiscal Year 2009 the Russell 3000 Index, a benchmark for U.S. equity markets, fell 26.6%. Globally, the MSCI All-Country World Index (ex-U.S.) fell 30.9%. In this environment the NHRS investment portfolio lost 18.1%, compared to the return of its benchmark portfolio which lost 17.2%. The benchmark is comprised of major market indices in weighted proportion to the System's allocation of investment assets.

Despite those sobering results, it is fair to say that the last four months of the fiscal year treated NHRS much more kindly than the first eight months. From a low point on March 9<sup>th</sup> the value of the NHRS investment portfolio recovered substantially to stand at \$4.4 billion at fiscal year end. Asset values continued to improve after the close of the fiscal year and stood at approximately \$4.9 billion at the end of October 2009. While this is still well below the NHRS' historic high point of \$6.0 billion in fiscal 2007, it represents a significant turnaround.

Many of our friends and neighbors are re-thinking their retirement prospects because the value of their defined contribution plan has fallen significantly. This makes it worthwhile to remind our members that the NHRS offers a defined benefit plan. Our retired members receive their defined benefits every month, and they will continue to do so. As stated in prior reports, investment returns are the single most important source of funds with which the NHRS will pay future benefits to its members. Accordingly, the NHRS maintains a long-term investment horizon. And while drops in market value can and will occur, even when they are as severe as have been experienced in the last year, we will maintain a disciplined approach to investing for the long term.

During Fiscal 2009, primarily as a result of the decline in value of our investments, the funding status of the NHRS weakened, albeit less dramatically than many of our peers. The funding status is measured by comparing the net assets available to pay benefits to the benefits owed now and in the future. The resulting measurement is called the funded ratio. As of fiscal year end the funded ratio of the Pension Plan stood at 58.3% and the OPEB Plans at 26.3% versus 67.8% and 26.2% in the previous year, respectively. While a balanced approach to managing our investments is important, strong investment returns alone will not be enough for the NHRS to meet its long-term target funding level. Employer contributions will rise significantly beginning on July 1, 2011. Improving the funding status of the NHRS remains a top priority for the Trustees.

The current weak funding status is also a reflection of the fact that historically the benefit levels imposed by statutory mandates were not funded sufficiently by contribution rates. Prior to the changes

adopted by the Legislature during FY 2007 and FY 2008, the actuarial methodology and accounting practices used by the NHRS for more than 15 years led to overstating the true funding status of the trust, which resulted in employer contribution rates that were too low, and a weak funding ratio. Thus current and future employer rates have to make up the shortfall. These structural issues have been addressed and the system is working through voluntary IRS procedures to assure compliance.

Fiscal Year 2009 marked the continued implementation of these reforms that were designed to strengthen the governance and long-term stability of the NHRS. Fiscal Year 2008 legislation established the Independent Investment Committee, which became effective January 1, 2009, with a mandate to bring additional investment expertise to the investment process for the benefit of our members. The committee is charged with investing in accordance with policies established by the Board, making recommendations to the Board regarding investment consultants, asset allocation, and other policy matters, and various other duties. The Board and Independent Investment Committee are in the process of carefully evaluating the NHRS' investment policies and strategy for any necessary changes, with the assistance of its investment consultant and actuary. The Independent Investment Committee is also charged with preparing a separate report on the investment activities of the System. The Investment Report draws from the information contained in this report and is presented under separate cover.

Activities continue in the Legislature to analyze the benefit structure and financing and employer sharing arrangements. Commissions studying future funding of Cost of Living (COLA) benefits and retiree health care continued their work during 2009, and are expected to report before the end of the calendar year. The 2009 Legislature enacted Temporary Supplemental Allowances, a COLA, and various other retirement-related provisions. A number of changes in benefit levels enacted during the FY 2008 and FY 2009 legislative sessions are also being challenged in court by member and retiree associations. NHRS continues to monitor these developments closely, participating to the extent prudent as fiduciaries, to ensure the long-term stability of the NHRS.

Fiscal Year 2009 was also a year of change in the leadership of the NHRS. During the last 12 months we have welcomed three new members of the Board. Debra Hackett, Jill Rockey, and Danny O'Brien have succeeded Joe Morris, Steve Arnold, and Debra Douglas, respectively. Ms. Hackett was drawn from our teacher group and Ms. Rockey from our police member group. Mr. O'Brien, with substantial financial and management experience, serves as a non-member trustee and as Vice Chair of the Board. We look forward to their contributions, and we thank their predecessor trustees for their years of dedicated service. The past year saw the departure of both our Executive Director and Director of Investments after relatively short tenures. These changes followed years of transitions and turnovers in leadership of the System. This year we hired a new Executive Director, and we expect to complete the hire of a new Director of Investments by year end. The Board remains focused on improving performance, efficiency, and accountability of the organization and has established several committees to more effectively monitor and participate in this process. A full report on the operations of the committees will be available at year end. We have also brought much greater transparency to the New Hampshire Retirement System.

As the NHRS engages with its many stakeholders, building the relationships that will help us address the challenges of the years ahead, I would like to thank my fellow Board members and the NHRS staff for their efforts during the past year. We continue to make progress with implementing the necessary changes to support the long-term stability of the NHRS. The Board is committed to meeting these challenges and fulfilling its fiduciary responsibility to members and their beneficiaries.

Sincerely,



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

## Legislative Changes

A significant amount of legislation was enacted during the fiscal year 2009 session. The following list provides a general description of the more significant items of legislation:

- Increased the member contribution rate for all Group I State employees hired on or after July 1, 2009 to 7.0% of earnable compensation. The member contribution rate for State employees hired before July 1, 2009 remains at 5.0%.
- Reduced the State's share of the political subdivision employers' normal cost from 35% to 30% for fiscal year 2010, and to 25% for the state fiscal year 2011. The State's share of political subdivision employer's normal cost reverts back to 35% for the state fiscal year 2012 and each fiscal year thereafter.
- Required NHRS, effective July 1, 2009, to deduct from the monthly pension benefit of retired Group I and Group II State employees, the amount of \$65.00 for each retiree and each spouse who are under age 65 and receiving healthcare coverage through the State of New Hampshire. The total monthly deduction may not exceed \$130.00.
- Required NHRS to re-certify employer contribution rates for fiscal years 2010 and 2011, based upon a July 1, 2009, State Employee OPEB Plan balance of zero and to base all future employer contribution rates for the State Employee OPEB Plan using the same zero balance.
- Effective July 1, 2009, granted a 1.5% COLA to be added to the base pension, on the first \$30,000 of pension benefits to all retirees and beneficiaries who had been retired for at least 12 months by July 1, 2009. In addition, two additional lump sum temporary allowances were provided as follows:
  - Only for the fiscal year beginning July 1, 2009, a supplemental allowance of \$1,000 for any retired member or beneficiary who had been retired at least 12 months whose annual retirement is based on at least 15 years of service and is \$20,000 or less annually;
  - Only for the fiscal year beginning July 1, 2009, a supplemental allowance of \$500 for any retired member or beneficiary who retired prior to January 1, 1993.
- Other enacted legislation re-defined earnable compensation, eliminated the gainful occupation offset for Group II accidental disability recipients and extended medical subsidy benefits eligibility requirements for certain Group I teacher and political subdivision employee members.

## Financial Highlights

- Net assets decreased by \$1,135.8 million (20.3%) from the prior year's net asset balance. By comparison, the net asset balance for fiscal year 2008 decreased by \$370.9 million over the fiscal year 2007 net asset balance.
- There was a net investment loss during fiscal year 2009 of \$995.2 million compared to net investment loss during fiscal year 2008 of \$292.8 million. The net investment loss for fiscal year 2009 reflects a time-weighted return for the total fund during the year of -18.1% compared to a time-weighted investment return of -4.6% for the fiscal year ended June 30, 2008.
- Employer contributions for fiscal year 2009 increased 4.6% to \$261.5 million compared with employer contributions in fiscal year 2008 of \$249.9. The increase in employer contributions in fiscal year 2009 was primarily due to higher reported compensation.
- Member contributions were \$142.5 million in fiscal year 2009, a decrease of 9.8% over fiscal year 2008 member contributions of \$158.0 million. Member contribution rates remained the same for fiscal year 2009. The decrease in member contributions in fiscal year 2009 is primarily due to reductions in voluntary member contributions.
- Benefits paid during fiscal year 2009 were \$510.0 million, an increase of 14.6% over the benefits paid in fiscal year 2008 of \$445.2 million. The increase in benefits paid in fiscal year 2009 is primarily due to an increase in the number of retirees, increased average benefit levels for those new retirees and temporary supplemental allowances granted to retirees through legislative action.

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

(in millions)

	As of June 30, 2009	As of June 30, 2008	Amount Increase (Decrease)	% Increase Decrease
Cash	\$ 12.1	\$ 2.8	\$ 9.3	332.1%
Receivables	156.2	114.7	41.5	36.2%
Investments	4,400.3	5,541.1	( 1,140.8)	( 20.6%)
Cash Collateral on Securities Lending	301.1	510.5	( 209.4)	( 41.0%)
Other Assets	2.0	2.1	( 0.1)	( 4.8%)
<b>Total Assets</b>	<b>\$4,871.7</b>	<b>\$6,171.2</b>	<b>(\$1,299.5)</b>	<b>( 2.1%)</b>
Cash Collateral on Securities Lending	301.1	510.5	(209.4)	( 41.0%)
Other Liabilities	109.4	63.7	45.7	71.7%
<b>Total Liabilities</b>	<b>\$ 410.5</b>	<b>\$ 574.2</b>	<b>(\$ 163.7)</b>	<b>( 28.5%)</b>
<b>Net Assets Held in Trust for Benefits</b>	<b>\$4,461.2</b>	<b>\$5,597.0</b>	<b>(\$1,135.8)</b>	<b>( 20.3%)</b>

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)

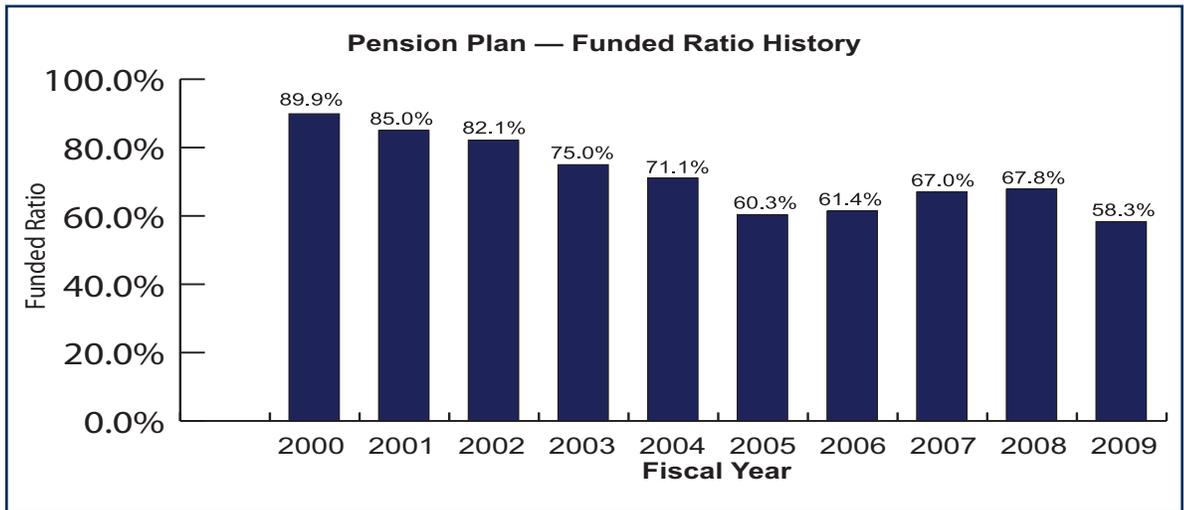
	As of June 30, 2009	As of June 30, 2008	Amount Increase (Decrease)	% Increase Decrease
<b>ADDITIONS:</b>				
Employer Contributions	\$ 261.5	\$249.9	\$ 11.6	4.6%
Member Contributions	142.5	158.0	(\$ 15.5)	( 9.8%)
Net Investment Income	( 995.2)	( 292.8)	(\$702.4)	(239.9%)
Other Income	1.6	2.2	( 0.6)	( 27.3%)
<b>Total Additions to Plan Net Assets</b>	<b>(\$ 589.6)</b>	<b>\$117.3</b>	<b>(\$706.9)</b>	<b>(602.6%)</b>
<b>DEDUCTIONS:</b>				
Benefits Paid	\$ 510.0	\$445.2	\$ 64.8	14.6%
Refunds of Contributions	24.2	32.3	(\$ 8.1)	( 25.1%)
Administrative Expenses	7.2	6.9	0.3	4.3%
Other Deductions	4.8	3.8	1.0	26.3%
<b>Total Deductions from Plan Net Assets</b>	<b>\$ 546.2</b>	<b>\$488.2</b>	<b>\$ 58.0</b>	<b>11.9%</b>
<b>Total Changes in Plan Net Assets</b>	<b>(\$1,135.8)</b>	<b>(\$370.9)</b>	<b>(\$764.9)</b>	<b>(206.2%)</b>

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

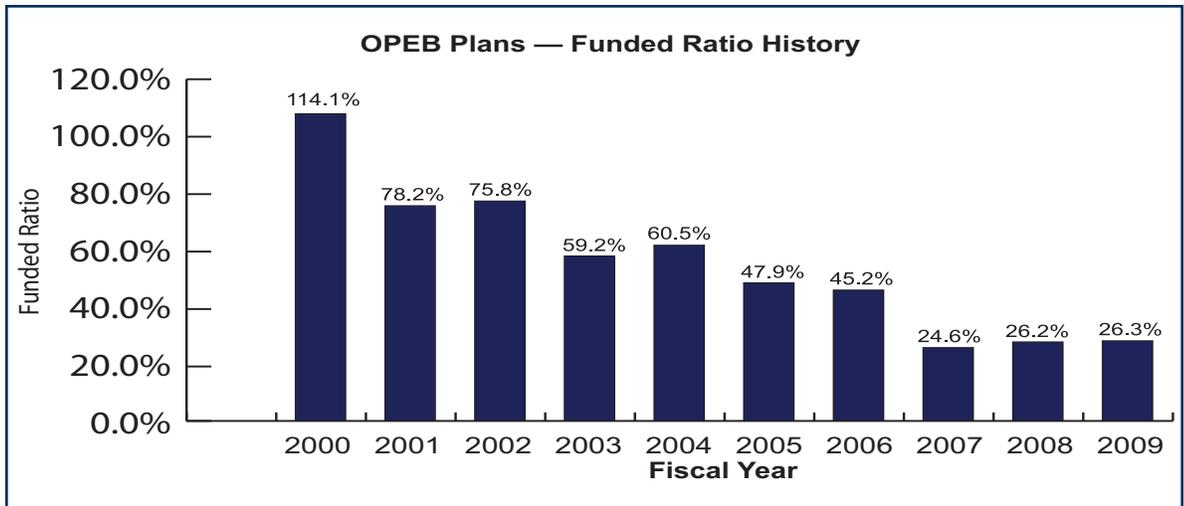
## Funding Progress

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 \$8.475 billion at June 30, 2009.
- The actuarial value of assets available to pay pension benefits was \$4.937 billion.
- As a result, the Pension Plan funded ratio was 58.3%.



- 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 \$673.4 million at June 30, 2009.
- The actuarial value of assets available to pay OPEB benefits was \$176.8 million.
- As a result, the OPEB Plans’ funded ratio was 26.3%.



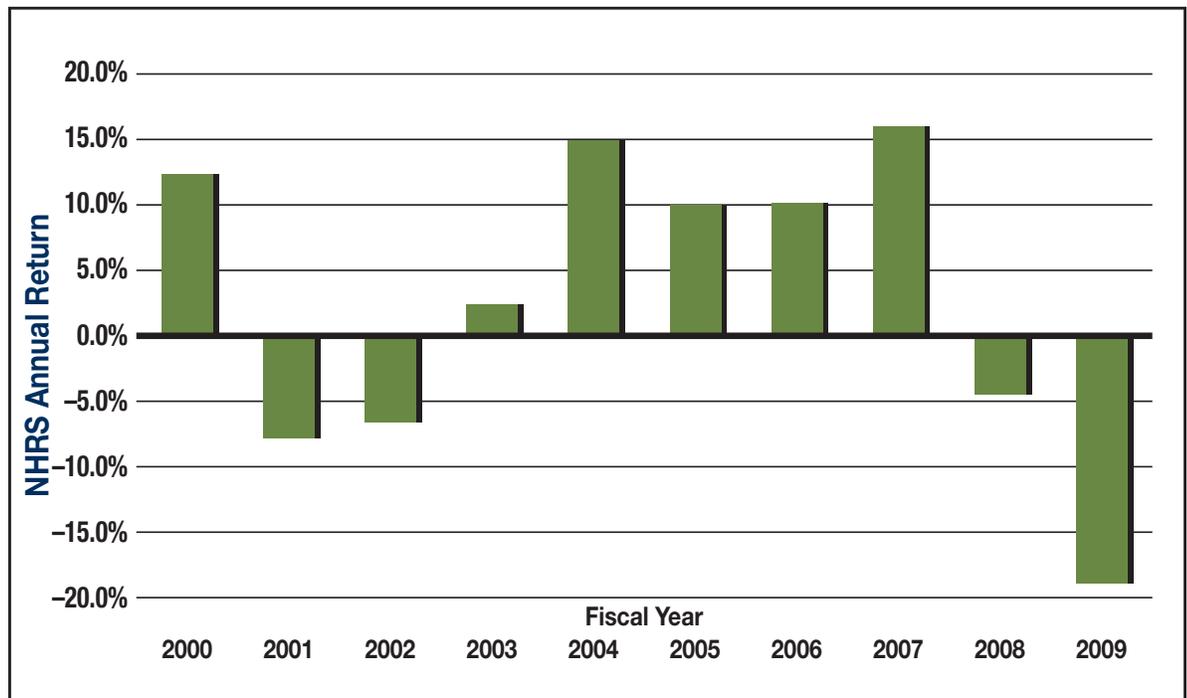
## Investment Performance

The results of the Plan’s investment program for the fiscal year ended June 30, 2009 are as follows:

- For fiscal year 2009, the total fund investment return of –18.1% fell short of the total fund custom benchmark of –17.2%.
- The investment climate during fiscal year 2009 reflected the worst economic conditions since the Great Depression. A central theme during the year was significant government intervention to stabilize the banking system and global markets. Despite these efforts, equity markets were severely impacted as evidenced by performance of the U.S. (Russell 3000 Index –26.6%) and global (MSCI All-Country World ex-U.S. –30.9%) equity indices.
- Negative returns were experienced in domestic equity (-28.0%), international equity (-31.1%), global equity (-21.9%), real estate (-31.7%) and alternative investments (-31.2%). Positive returns were experienced in the fixed income portfolio (5.1%).
- On a relative basis, the global equity and fixed income portfolios outperformed their benchmarks by 7.4% and 0.2%, respectively.
- 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 Plan’s asset allocation policy.

	Current Year 2009	Annualized		
		3 year	5 Year	10 Year
Total NHRS Fund	-18.1%	-3.2%	1.8%	2.1%
Total Fund Custom Index	-17.2%	-2.6%	2.3%	2.4%

Ten Year History of Time-Weighted Annual Returns

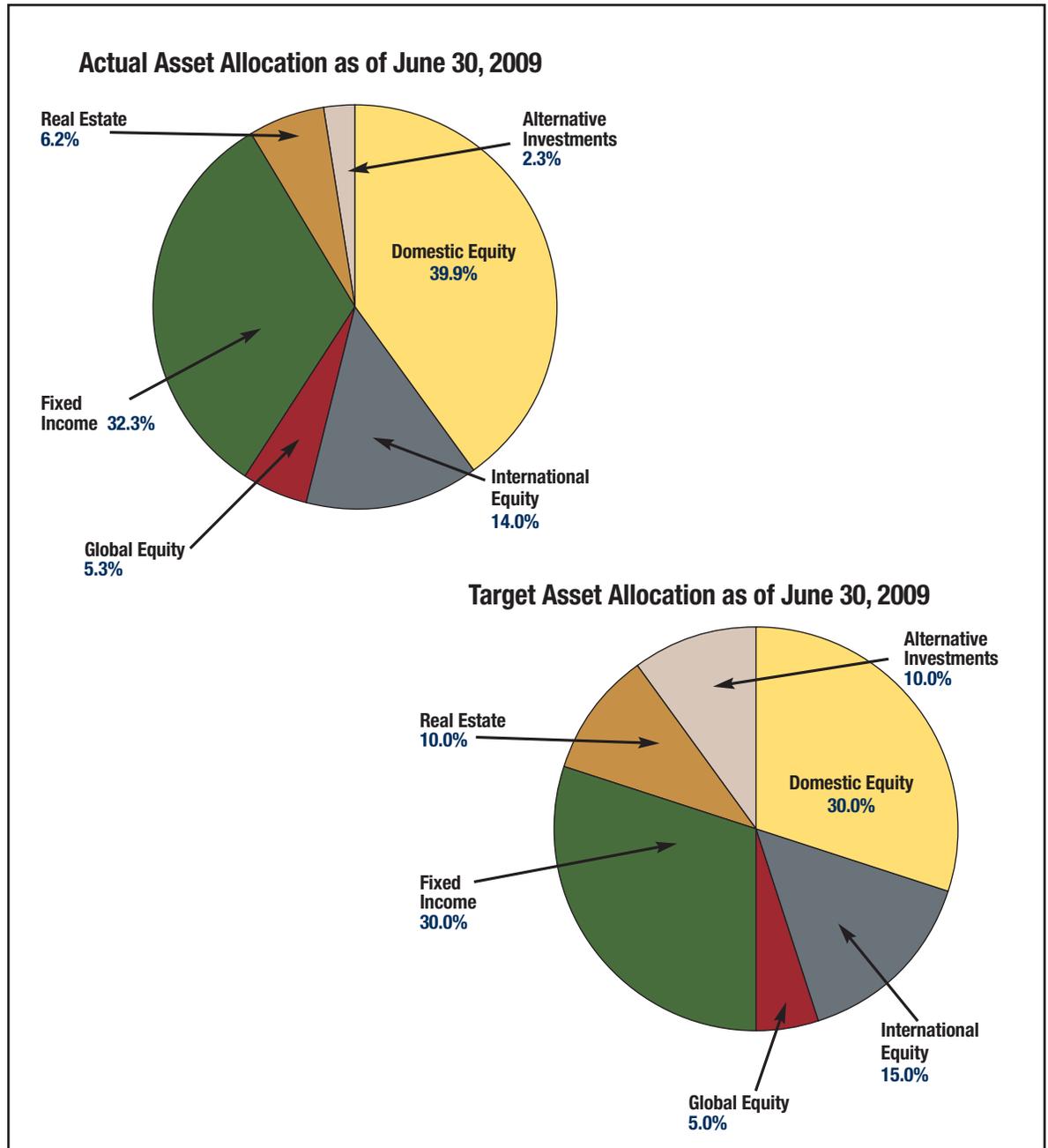


## Diversification of Investments

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 fiscal year 2009, the Investment Committee of the Board of Trustees added a 5% allocation to global equity. Assets in this allocation were invested with one new manager and one manager previously retained by the NHRS.
- The Investment Committee began the restructuring of the alternative investment portfolio in order to diversify the existing program and to increase the allocation to the policy target of 10% by seeking additional private equity partnerships.

Shown below are the actual and target asset allocation as of June 30, 2009.



# Member Profiles

PENSION PLAN					Total
	Employees	Teachers	Police	Fire	
<b>Active Members</b>					
Average Age	47.9	45.5	38.8	40.1	46.0
Average Service	9.9	12.3	10.4	12.1	10.9
Average Annual Pay	\$40,952	\$53,638	\$59,735	\$65,144	\$47,976
<b>Retired Members</b>					
Average Age	70.5	68.4	62.3	64.7	68.6
Average Annual Pension	\$11,697	\$20,830	\$31,980	\$33,533	\$18,096
<b>Total Membership</b>					
Active	26,352	18,709	4,318	1,653	51,032
Retired	12,192	8,507	2,565	1,237	24,501
Terminated — Vested	752	574	54	11	1,391

OPEB PLANS	One-Person Coverage		Two-Person Coverage		
	Number of Retirees	Pre-65	Post-65	Pre-65	Post-65
		10,209	2,185	6,156	1,583

**DISTRIBUTION OF RETIREES BY YEARS OF CREDITED SERVICE** (\$ in Millions)

	0–9 Years	10–19 Years	20–29 Years	30+ Years	Total
<b>Pension Plan</b>					
Total Retirees	2,954	7,643	8,637	5,267	24,501
Annual Benefits	\$16.9	\$72.4	\$192.7	\$161.2	\$443.2
<b>OPEB Plans</b>					
Total Retirees	428	524	5,526	3,731	10,209
Annual Benefits	\$2.3	\$2.9	\$30.7	\$22.3	\$58.2

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](http://www.nhrs.org).

## Contact Information

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Website: [www.nhrs.org](http://www.nhrs.org)  
 Mon./Tue./Thu.: 7:30 a.m. to 4:30 p.m.  
 Wed.: 7:30 a.m. to 6:00 p.m.  
 Fri.: 7:30 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, 2008.

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.

