

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, 2015

Our Mission

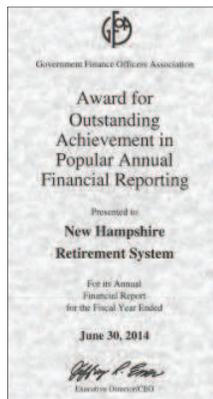
The New Hampshire Retirement System is a promise keeper. Our role is that of a fiduciary — administering the retirement benefit commitments made by our participating employers to their employees who are our members — according to the plan provisions as enacted by the State Legislature. Our ability to 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, 2014.

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

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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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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 (“Summary CAFR”) for the fiscal year ended June 30, 2015. This report is presented in conformity with Generally Accepted Accounting Principles and is intended to provide an overview of NHRS financial, investment, funding, accounting, 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, policies adopted by the Board of Trustees, 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 47,812 active, contributing members. Group I members make up 88 percent of the total active membership. Group II members make up 12 percent of the total active membership.

The retirement system has 31,350 pension recipients and 10,265 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.

NHRS has 468 participating employers – the State of New Hampshire, counties, individual communities, school districts, and others. Not every political subdivision participates in the retirement system for its employees, although most do. Participation is mandatory for police, fire, and teacher employers.

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 Comprehensive Annual Investment Report (CAIR) may be viewed or downloaded at www.nhrs.org.

The year in review...

Financial Highlights

- Plan net position increased by \$116.0 million (1.6%) from the prior year's net position.
- Net investment income during fiscal year 2015 was \$250.9 million, an \$847.1 million (-77.1%) decrease over the prior fiscal year. The net investment income for fiscal year 2015 reflects a time-weighted return for the total fund during the year of 3.5% compared to a time-weighted investment return of 17.6% for the fiscal year ended June 30, 2014.
- The total contributions received during the fiscal year were \$585.3 million. For fiscal year 2014, total contributions received were \$576.3 million.
- Employer contributions for fiscal year 2015 increased to \$381.2 million (1.0%) compared with employer contributions in fiscal year 2014 of \$377.3 million. The increase in employer contributions in fiscal year 2015 was primarily due to growth of covered payroll.
- Member contributions were \$204.1 million in fiscal year 2015, an increase of (2.6%) over fiscal year 2014 member contributions of \$199.0 million. The increase in member contributions is primarily due to growth of covered payroll. Overall member normal contributions increased by \$4.8 million (2.5%) over the prior fiscal year. Voluntary member contributions increased by \$0.3 million (5.2%) over fiscal year 2014.
- Benefits paid during fiscal year 2015 were \$684.6 million, an increase of 4.8% over the benefits paid in fiscal year 2014 of \$653.3 million. The increase in benefits paid in fiscal year 2015 is primarily due to an increase in the number of retirees and increased average benefit levels for those new retirees.

Legislative Changes

- None.

Major Accomplishments

- Provided NHRS members with the option for electronic filing of popular forms via My Account, the retirement system's secure online member portal.
- Restructured the Retiree Services department to take advantage of efficiencies identified in the course of an ongoing Process Improvement Project ("PIP"), resulting in significant annual cost savings.
- Achieved investment performance for FY 2015 of 3.5%, which placed NHRS in the top 30 percent of its peer universe of public pension plans for the one-year period.
- Successfully coordinated the implementation of GASB statements 67 and 68, including the introduction of new GASB 67 financial disclosures in the June 30, 2014, CAFR, the completion of employer-level GASB 67 audits, and the preparation of FY 2014 GASB 68 reports for participating employers, which were released in July 2015. The implementation effort included an extensive communication and education campaign for participating employers.
- Installed new IT system infrastructure, implemented email encryption and 24/7 intrusion monitoring, initiated security training for staff, and purchased cyber liability insurance coverage. All of these steps have been taken as part of an ongoing effort toward assuring the protection of personal information and other sensitive data.
- Entered into an agreement to provide for disaster recovery services for the NHRS pension database, which assures that, in the event of a catastrophic event, retiree pension payments will continue to be processed.
- Completed a website redesign project that culminated with a January 2015 launch. In addition to visual appeal and ease of use, the new site gives NHRS much more flexibility for adding new content.
- Created an unclaimed contribution page for the NHRS website to provide information to former members who may have left funds in the system.
- Provided insurance vendors with the ability to submit rate changes electronically, saving substantial staff time and reducing the opportunities for data entry errors.
- Held 36 member benefit information sessions at NHRS and other locations throughout the state. Also participated in an additional 20 presentations for retirees, employers, legislators, or professional organizations.
- Continued to maintain administrative and investment expenses at favorable levels as compared to peer pension plans.

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

(\$ in millions)

The Statements of Fiduciary 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, 2015	As of June 30, 2014	Amount Increase (Decrease)	Percent Increase (Decrease)
Cash	\$ 5.2	\$ 9.9	\$ (4.7)	(47.5%)
Receivables	106.2	109.6	(3.4)	(3.1%)
Investments	7,460.7	7,334.0	126.7	1.7%
Other Assets	0.2	0.2	0.0	0.0%
Total Assets	\$7,572.3	\$7,453.7	\$ 118.6	1.6%
Other Liabilities	42.2	39.6	2.6	6.6%
Total Liabilities	\$ 42.2	\$ 39.6	\$ 2.6	6.6%
Net Position Restricted for Pension and OPEB	\$7,530.1	\$7,414.1	\$ 116.0	1.6%

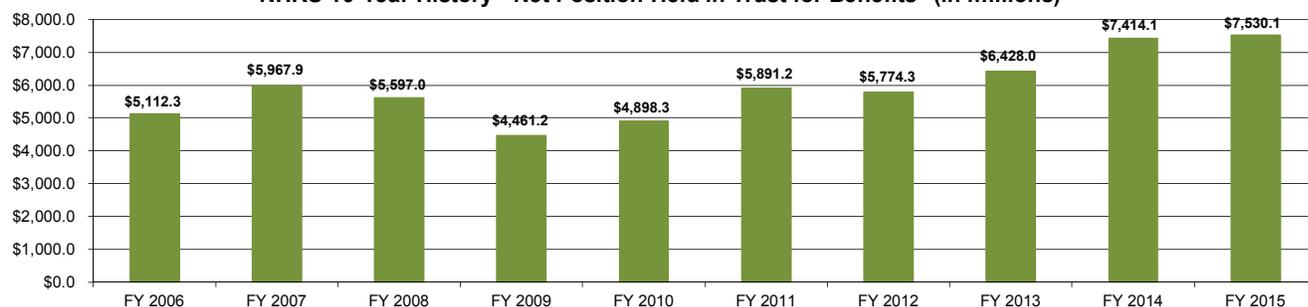
**Summary Comparative Statements of Changes in Fiduciary Net Position:
Combined Pension and OPEB Plans**

(\$ in millions)

The Statements of Changes in Fiduciary 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, 2015	As of June 30, 2014	Amount Increase (Decrease)	Percent Increase (Decrease)
ADDITIONS:				
Employer Contributions	\$ 381.2	\$ 377.3	\$ 3.9	1.0%
Member Contributions	204.1	199.0	5.1	2.6%
Net Investment Income (Loss)	250.9	1,098.0	(847.1)	(77.1%)
Other Income	1.1	1.1	0.0	0.0%
Total Additions to Net Position	\$ 837.3	\$1,675.4	\$ (838.1)	(50.0%)
DEDUCTIONS:				
Benefits Paid	\$ 684.6	\$ 653.3	\$ 31.3	4.8%
Refunds of Contributions	26.3	26.1	0.2	0.8%
Administrative Expense	7.6	7.4	0.2	2.7%
Other Deductions	2.8	2.5	0.3	12.0%
Total Deductions from Net Position	\$ 721.3	\$ 689.3	\$ 32.0	4.6%
Total Changes in Net Position	\$ 116.0	\$ 986.1	\$ (870.1)	(88.2%)

NHRS 10-Year History - Net Position Held in Trust for Benefits* (in millions)



* referred to as "Net Assets Available for Benefits" prior to FY 2013

Investment Performance

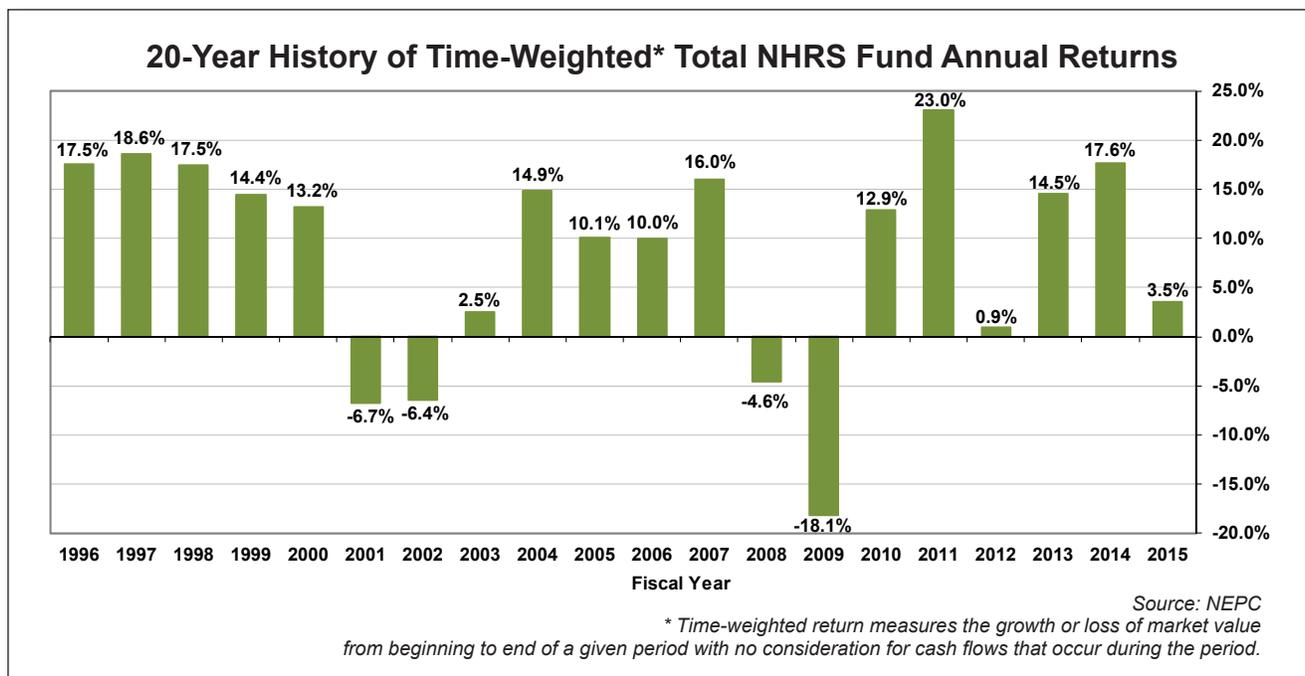
Investment returns are reported net of investment expenses and are measured against a total fund custom index. The total fund custom index (see below) is a blend consisting of major market indices in proportion to the retirement system's asset allocation; this index changes as strategies and objectives evolve over time.

The results of the plans' investment program for the period ended June 30, 2015, are as follows:

- For fiscal year 2015, the total fund investment return of 3.5% underperformed the total fund custom index return of 4.3%. For this period, the individual asset classes generated the following performance: domestic equity 6.6%; non-U.S. equity -3.2%; fixed income -0.7%; real estate 13.1%; and alternative investments 4.7%.
- For the five-year period ended June 30, 2015, the total fund investment return of 11.6% underperformed the total fund custom index return of 11.7%.
- Compared to the members in the InvestorForce Public Defined Benefit Universe, which represents 242 public plans totaling more than \$435 billion in assets, NHRS performed better than 70% of its peers over the one-year period and better than 90% its peers over the three- and five-year periods.

	Current Year 2015	Annualized		
		3-Year	5-Year	10-Year
Total NHRS Fund	3.5%	11.7%	11.6%	6.9%
Total Fund Custom Index*	4.3%	11.9%	11.7%	7.1%

* For June 30, 2015, the total fund custom index consisted of: 37.3% Russell 3000 Index (U.S. Equity); 20% MSCI All Country World Ex-U.S. Index (Non-U.S. Equity); 25% Barclays Capital Universal Bond Index (Fixed Income); 8.7% NCREIF Property Index plus 50 basis points (Real Estate); and 9.0% S&P 500 Index plus 5% (Alternative Investments).



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.

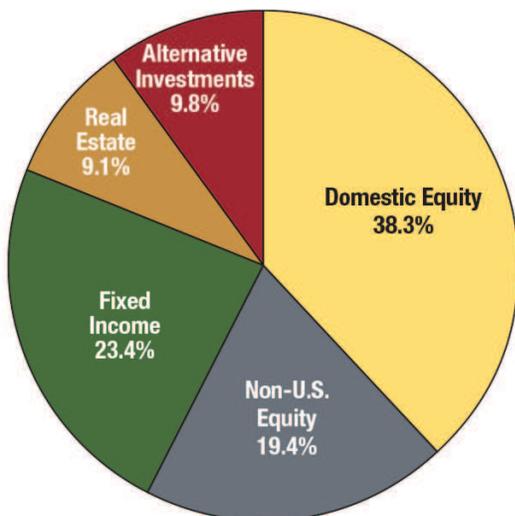
The IIC manages investments based on the Trustees' policies; continuously monitors and evaluates performance; and makes determinations regarding the hiring and retention of fund managers.

The actual and target asset allocations as of June 30, 2015, 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.

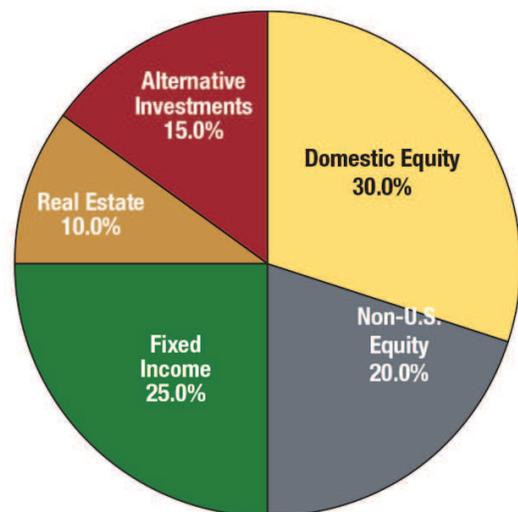
More detailed information regarding the NHRS investment portfolio can be found in the Comprehensive Annual Financial Report and the Comprehensive Annual Investment Report, which are available at www.nhrs.org.

Actual Asset Allocation Versus Target Asset Allocation

Actual Asset Allocation as of June 30, 2015



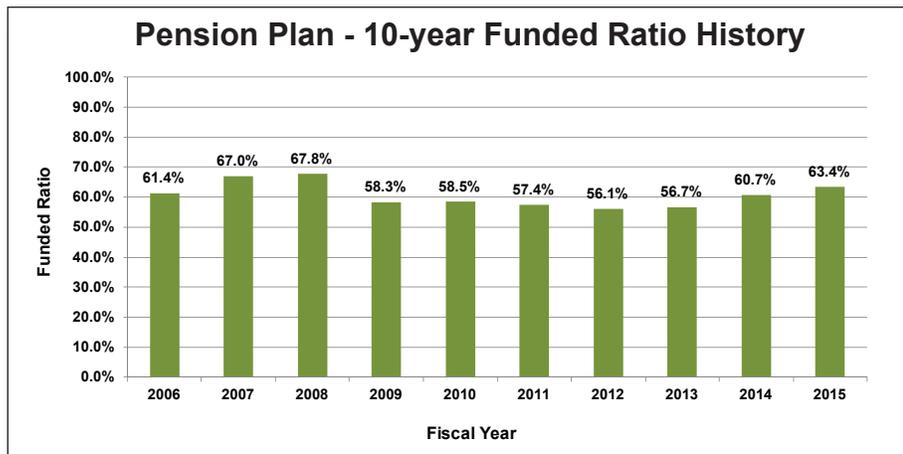
Target Asset Allocation as of June 30, 2015



Actuarial Funding Progress

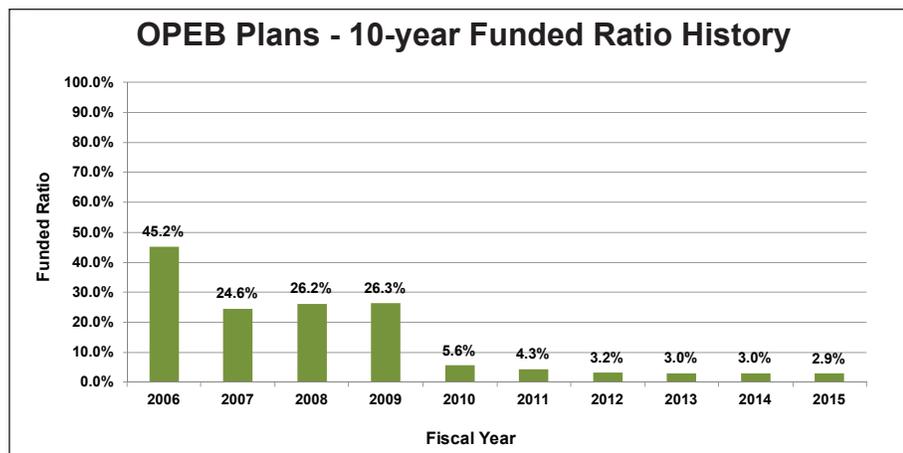
The primary measure of a benefit plan's progress is its funded status, or funded ratio, which compares the assets available to the benefits that must be paid. As of June 30, 2015, the funded ratio for the pension plan was 63.4%. This means that the actuarial value of the retirement system's assets is 63.4% 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, had a funded ratio at June 30, 2015, of 2.9%. 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.



Pension Highlights

- The unfunded actuarial accrued liability for the Pension Plan was \$4,207.9 million at June 30, 2015.
- The actuarial value of assets available to pay pension benefits was \$7,280.8 million at June 30, 2015.
- The Pension Plan funded ratio was 63.4% at June 30, 2015.



OPEB Highlights

- The unfunded actuarial accrued liability for the OPEB Plans was \$656.1 million at June 30, 2015.
- The actuarial value of assets available to pay OPEB benefits was \$19.5 million at June 30, 2015.
- The OPEB Plans' funded ratio was 2.9% at June 30, 2015.

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.

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.

GASB Statement No. 67

GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67), requires disclosures of total pension liability, fiduciary net position, net pension liability, and annual money-weighted rate of return on plan investments, among other disclosures. The most significant change resulting from GASB 67 is the calculation of the net pension liability (NPL). For accounting purposes, the NPL replaces the Unfunded Actuarial Accrued Liability (UAAL) and is calculated by subtracting the fiduciary net position at market value – as opposed to the actuarial value of assets used to determine the UAAL, which “smooths” gains or losses over five years – from the total pension liability.

Due to the timing of GASB 67 implementation audit requirements, the total pension liability (for GASB purposes) of \$11.47 billion is based on an actuarial valuation performed as of June 30, 2014, and rolled forward to the measurement date of June 30, 2015. The roll-forward procedure increases the June 30, 2014, actuarial accrued liability with estimated benefits earned and interest and decreases it with actual benefits and administrative expenses paid. The fiduciary net position available to pay pension benefits at June 30, 2015, was \$7.51 billion, resulting in a net pension liability of \$3.96 billion and a funded ratio of 65.5% at June 30, 2015. The money-weighted rate of return, which shows investment performance net of fees and is adjusted for the timing of cash flows and the changing amounts actually invested, was 3.4%. For fiscal year 2014, the total pension liability based on the June 30, 2013, actuarial valuation was \$11.14 billion. The plan fiduciary value of assets available to pay pension benefits at June 30, 2014, was \$7.39 billion resulting in a net pension liability of \$3.75 billion and a funded ratio of 66.3%. The money-weighted rate of return was 17.6%.

It is important to note that the disclosures related to GASB 67 are accounting measurements, not actuarial measurements of the funded status of the plan, and are not used to develop employer contribution rates.

GASB reporting schedules are available online at: www.nhrs.org/employers/gasb/gasb-67-68-reports

Member and Retiree Data

PENSION PLAN	Employee	Teacher	Police	Fire	Total
Active Members					
Average Age	49.2	46.3	39.2	41.3	47.10
Average Service	11.2	13.4	10.9	13.2	12.1
Average Annual Pay	\$46,414	\$59,240	\$66,975	\$72,925	\$53,857
Retired Members					
Average Age	71.3	70.4	63.4	65.5	69.8
Average Annual Pension	\$13,462	\$22,961	\$35,002	\$37,557	\$20,320
Total Membership					
Active	24,298	17,732	4,174	1,608	47,812
Retired	15,483	10,859	3,457	1,551	31,350
Terminated - Vested	1,065	822	98	14	1,999

OPEB PLANS (Medical Subsidy)	One-Person Coverage		Two-Person Coverage		
	Number of Retirees	Pre-65	Post-65	Pre-65	Post-65
		10,265	1,082	7,894	815



NHRS

New Hampshire Retirement System

Contact Information

New Hampshire Retirement System

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Hours of Operation

Monday–Friday

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