

New Hampshire Retirement System
A Component Unit Of The State Of New Hampshire

Summary Annual Financial Report
For The Fiscal Year Ended
June 30, 2017

NHRS Celebrates 50 Years!

Committed to providing secure retirement benefits and superior service for five decades.



Mission, Vision, and Values

The New Hampshire Retirement System plays an important role in the long-term economic well-being of the state's public employees, teachers, police officers, and firefighters. NHRS strives to meet this responsibility through a commitment to our mission, vision, and values.

OUR MISSION

To provide secure retirement benefits and superior service.

OUR VISION

NHRS will fulfill our role as fiduciary of the trust and deliver retirement benefits to our members and beneficiaries through a commitment to value, innovation and excellence.

OUR VALUES

Security – Providing promised benefits and guarding the confidentiality of personal information.

Excellence – Striving to exceed expectations through innovation, accountability, and teamwork.

Respect – By recognizing the uniqueness and importance of our stakeholders, our co-workers, and ourselves, we foster collaboration and cooperation.

Value – Committing to be a trusted and effective fiduciary by always acting in the best interest of our membership.

Integrity – Acting in an ethical, honest, and professional manner in all our interactions.

Communication – Providing responsive, accurate, and timely information to our stakeholders.

Empathy – Being aware of the feelings of others and how our actions affect them enables us to be responsive to the needs of all we encounter.



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
Maureen Kelliher
David McCrillis
Vacant

Employee Members

Tonya Angwin, Teacher
William Hart, Police
Germano Martins, Employee
George Walker, Fire

Employer Members

Michael Milligan, State of New Hampshire
Julia Griffin, NH Municipal Assoc.
Donald M. Roy, NH School Boards Assoc.
Stephen Marro, NH Assoc. of Counties

Ex Officio Member

Bill Dwyer, 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.

Maureen Kelliher, Chair
David Jensen
Patrick O'Donnell
Keith Quinton
Vacant

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, 2017. 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 47,886 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.

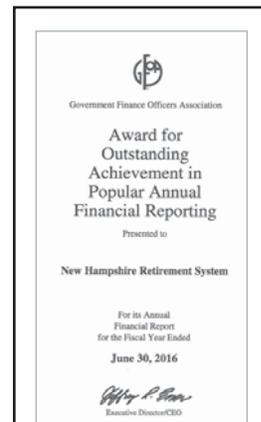
The retirement system has 35,694 pension recipients and 10,005 retirees and/or beneficiaries receiving a post-retirement Medical Subsidy.

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 471 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.



Outstanding Achievement

The Government Finance Officers Association of the United States 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, 2016.

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.

The year in review...

Financial Highlights

- Plan net position increased by \$832.3 million (11.2%) from the prior year's net position.
- Net investment income during fiscal year 2017 was \$982.6 million, a \$920.6 million (1,484.8%) increase over the prior fiscal year. The net investment income for fiscal year 2017 reflects a time-weighted return for the total fund during the year of 13.5% compared to a time-weighted investment return of 1.0% for the fiscal year ended June 30, 2016.
- The total contributions received during the fiscal year were \$638.9 million. For fiscal year 2016, total contributions received were \$623.6 million.
- Employer contributions for fiscal year 2017 increased to \$425.8 million (2.4%) compared with employer contributions in fiscal year 2016 of \$415.7 million. The increase in employer contributions in fiscal year 2017 was primarily due to an increase in earnable compensation for contributing members.
- Member contributions were \$213.1 million in fiscal year 2017, an increase of 2.5% over fiscal year 2016 member contributions of \$207.9 million. The increase in member contributions is primarily due to an increase in earnable compensation for contributing members. Overall member normal contributions increased by \$5.2 million (2.5%) over the prior fiscal year. Voluntary member contributions decreased by \$0.1 million (-6.4%) over fiscal year 2016.
- Benefits paid during fiscal year 2017 were \$756.9 million, an increase of 4.8% over the benefits paid in fiscal year 2016 of \$722.2 million. The increase in benefits paid in fiscal year 2017 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 2017 session which:

- Established renewable three-year terms for members of the NHRS Independent Investment Committee.
- Required the decennial retirement commission established in RSA 100-A:57 to review the following additional issues: the feasibility and cost of eliminating the reduction in a Group I retiree's retirement allowance at the age of 65; the current plan for paying off the retirement system's unfunded actuarial accrued liability; the effects of retirees returning to work; and, the effects that changes to employer contribution rates have on municipalities.

Major Initiatives

NHRS faces many issues common to other public employee retirement plans. As part of its proactive response to these challenges, the retirement system strives to create a culture of constant improvement. Some of the significant accomplishments during fiscal year 2017 were:

- Achieved investment performance for FY 2017 of 13.5% which placed NHRS in the top 18% of the peer universe of public pension plans; the three-, five-, 10-, 20-, and 25-year returns for the periods ended June 30, 2017, were 5.8%, 9.8%, 5.7%, 6.8%, and 8.2%, respectively. NHRS performed better than 90% of its peers over the three- and five-year periods and better than 80% of its peers over the one-, 10-, 20-, and 25-year periods.
- Developed and documented a comprehensive business continuity plan to ensure continuity of core services in the event of disruptive events.
- Made several upgrades to *My Account*, the retirement system's secure online member portal, including enhanced security for enrollment and the capability for registered users to file for retirement electronically.
- Revised and refined Mission, Vision, and Values statement to be more concise, memorable, forward-focused – "To provide secure retirement benefits and superior service."
- Developed educational presentations and online materials for new members as part of a multi-year effort to expand education and outreach to members, retirees, and employers.
- Successfully implemented requirements of GASB 74 (Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans).
- Earned a Certificate of Achievement for Excellence in Financial Reporting for both the Comprehensive Annual Financial Report (CAFR) and Summary CAFR.
- Developed a Fraud Policy that provides a framework for the responsible and professional conduct by all NHRS employees and members of the Board of Trustees who may find themselves in a position of suspecting or identifying potentially fraudulent activities related to NHRS.
- Marked the 50th anniversary on the retirement system throughout FY 2017.

**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.

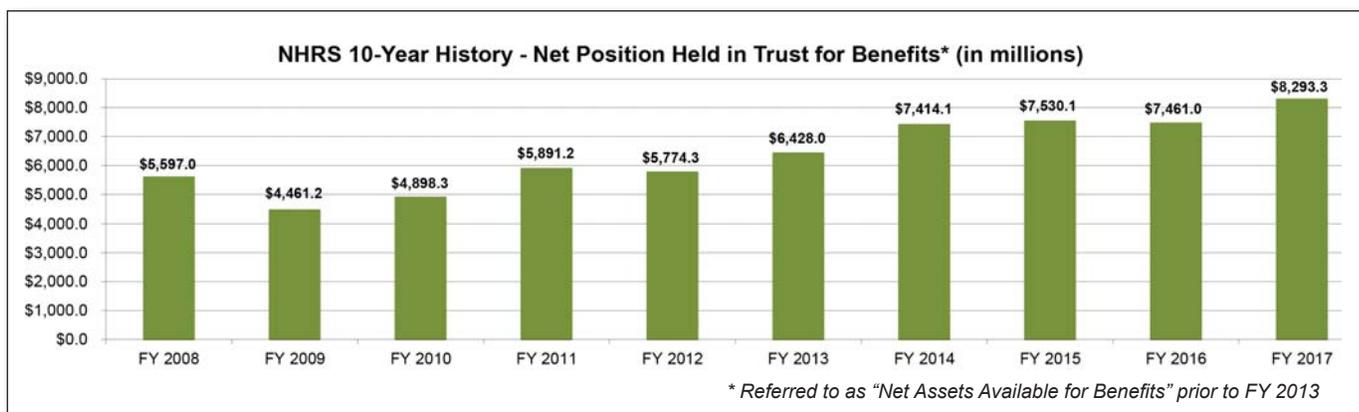
	As of June 30, 2017	As of June 30, 2016	Amount Increase (Decrease)	Percent Increase (Decrease)
Cash	\$ 9.3	\$ 6.7	\$ 2.6	38.8%
Receivables	107.3	122.9	(15.6)	(12.7%)
Investments	8,205.2	7,372.7	832.5	11.3%
Other Assets	0.2	0.2	0.0	0.0%
Total Assets	\$8,322.0	\$7,502.5	\$819.5	10.9%
Other Liabilities	28.7	41.5	(12.8)	(30.8%)
Total Liabilities	\$ 28.7	\$ 41.5	\$ (12.8)	(30.8%)
Net Position Restricted for Pension and OPEB	\$8,293.3	\$7,461.0	\$ 832.3	11.2%

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

(\$ in millions)

The Statements of Changes in Plan 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, 2017	As of June 30, 2016	Amount Increase (Decrease)	Percent Increase (Decrease)
ADDITIONS:				
Employer Contributions	\$ 425.8	\$ 415.7	\$ 10.1	2.4%
Member Contributions	213.1	207.9	5.2	2.5%
Net Investment Income (Loss)	982.6	62.0	920.6	1,484.8%
Other Income	0.2	0.8	(0.6)	(75.0%)
Total Additions to Net Position	\$ 1,621.7	\$ 686.4	\$ 935.3	136.3%
DEDUCTIONS:				
Benefits Paid	\$ 756.9	\$ 722.2	\$ 34.7	4.8%
Refunds of Contributions	23.4	24.2	(0.8)	(3.3%)
Administrative Expense	7.7	7.1	0.6	8.5%
Other Deductions	1.4	2.0	(0.6)	(30.0%)
Total Deductions from Net Position	\$ 789.4	\$ 755.5	\$ 33.9	4.5%
Total Changes in Net Position	\$ 832.3	\$ (69.1)	\$ 901.4	1,304.5%



Investment Performance

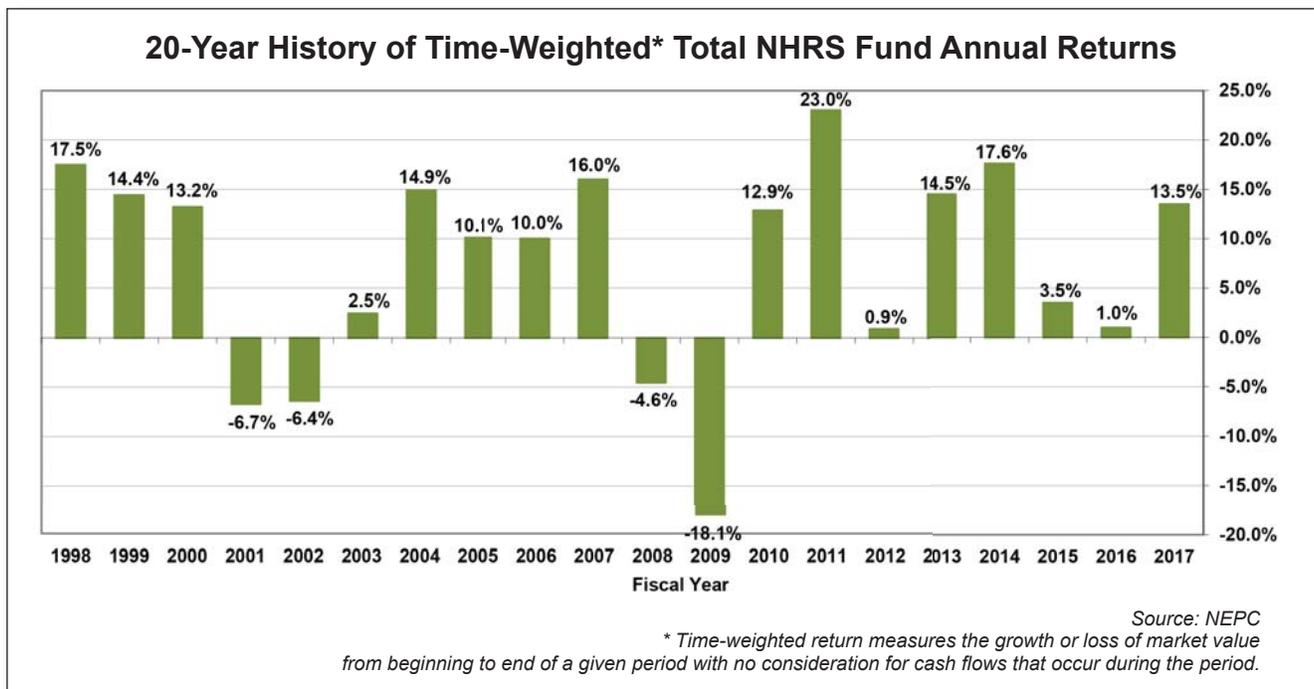
Investment returns are reported net of investment expenses and are measured against a total fund custom index. The total fund custom index (see below) is a blend consisting of major market indices in proportion to the retirement system's asset allocation; this index changes as strategies and objectives evolve over time. The retirement system's assumed rate of investment return is 7.25%.

The results of the plans' investment program for the period ended June 30, 2017, are as follows:

- For fiscal year 2017, the total fund investment return of 13.5% outperformed the total fund custom index return of 11.9%. For this period, the individual asset classes generated the following performance: domestic equity 19.3%; non-U.S. equity 20.1%; fixed income 3.9%; real estate 9.1%; and alternative investments 11.9%.
- The three-year, five-year, 10-year, 20-year, and 25-year returns for the periods ended June 30, 2017, were 5.8%, 9.8%, 5.7%, 6.8%, and 8.2%, respectively.
- Compared to the members in the InvestorForce Public Defined Benefit Net Universe, which represents 283 public plans totaling more than \$599 billion in assets, NHRS performed better than 90% of its peers over the three and five-year periods and better than 80% of its peers over the one-, 10-, 20-, and 25-year periods. All returns are net of fees.

	Current Year 2017	Annualized		
		3-Year	5-Year	10-Year
Total NHRS Fund	13.5%	5.8%	9.8%	5.7%
Total Fund Custom Index*	11.9%	6.1%	9.9%	5.9%

* For June 30, 2017, the total fund custom index consisted of: 30.0% S&P 500 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); 10.0% NCREIF NFI-ODCE Index – Net of Fee (Real Estate); and 15.0% Alternative Assets Blended Benchmark* (Alternative Investments). *This benchmark consists of: (1) 33.3% S&P 500 Index + 3%; 33.3% S&P LSTA Leveraged Loan 100 Index; and (3) 33.3% 1-month USD LIBID + 5%.



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.

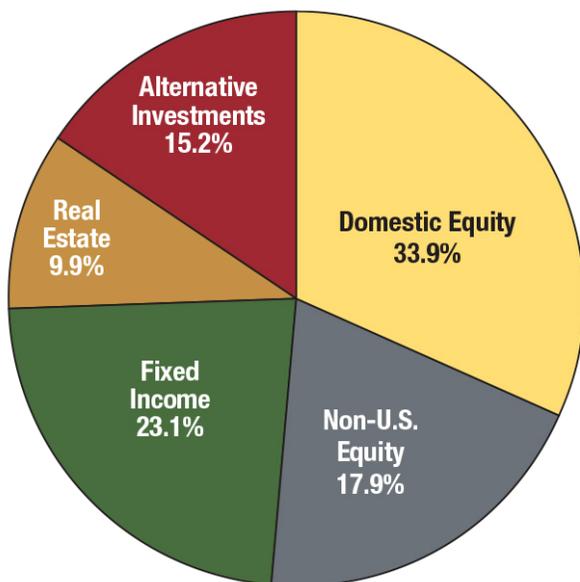
The IIC manages investments based on the Trustees' policies; continuously monitors and evaluates performance; and makes determinations regarding the hiring and retention of fund managers.

The actual and target asset allocations as of June 30, 2017, 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 is primarily made up of investments in commingled real estate funds and real estate limited partnerships. Alternative Investments primarily include private equity and private debt limited partnerships that are not traded in the public market.

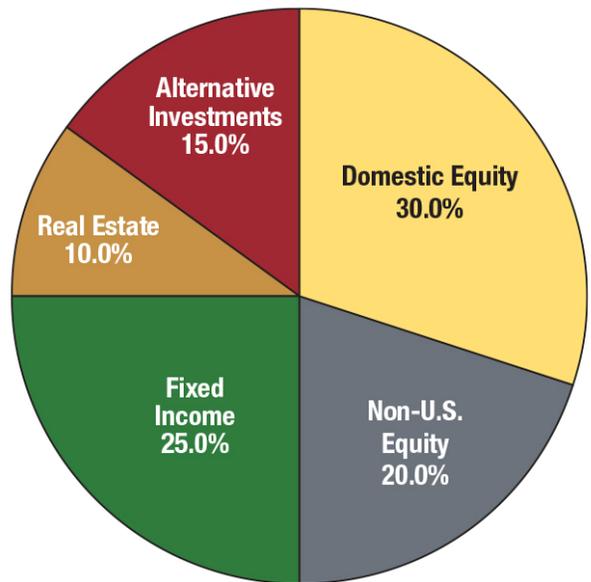
More detailed information regarding the NHRS investment portfolio can be found in the Comprehensive Annual Financial Report and the Comprehensive Annual Investment Report, which are available at www.nhrs.org.

Actual Asset Allocation Versus Target Asset Allocation

Actual Asset Allocation as of June 30, 2017



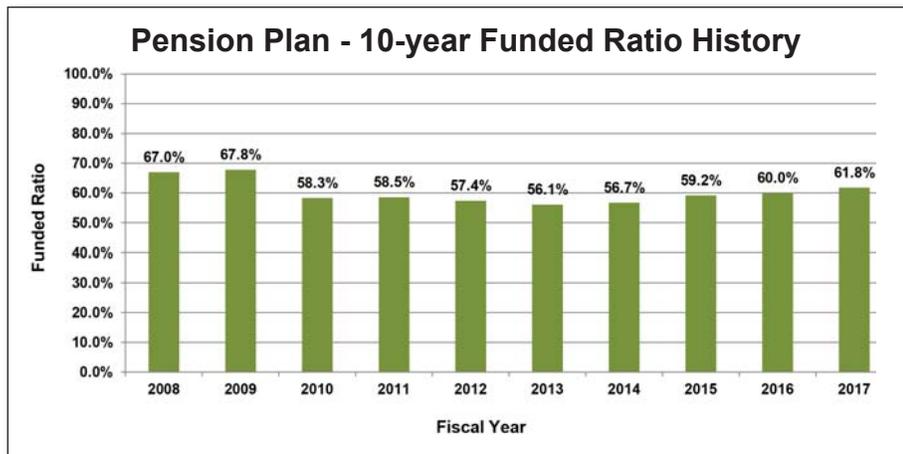
Target Asset Allocation as of June 30, 2017



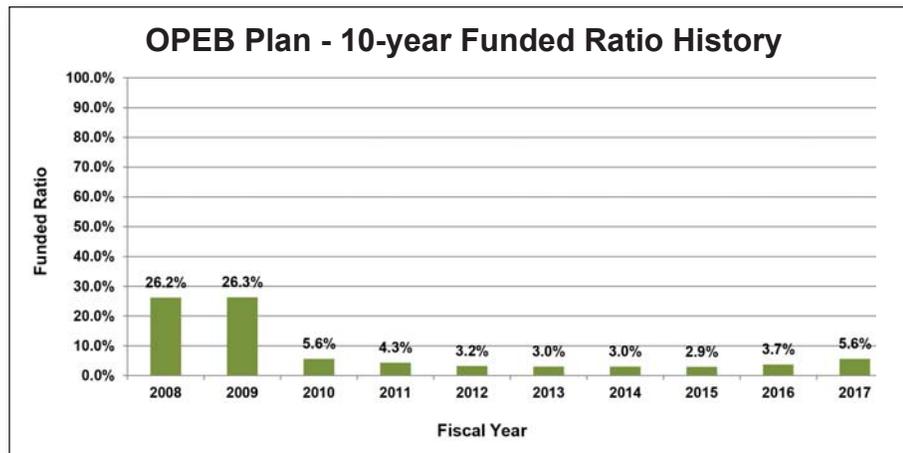
Actuarial Funding Progress

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, 2017, the funded ratio for the pension plan was 61.8%. This means that the actuarial value of the retirement system's assets is 61.8% of the projected amount needed to pay for both current retirees and the accrued benefit for future retirees.

The OPEB plan, more commonly known as the Medical Subsidy, had a funded ratio at June 30, 2017, of 5.6%. 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.



Note: Funded ratio impacted by reduction to assumed rate of investment return and other adjustments to actuarial assumptions adopted in FY 2011 and FY 2016.



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.

Pension Highlights

- The unfunded actuarial accrued liability for the Pension Plan was \$5,042.8 million at June 30, 2017.
- The actuarial value of assets available to pay pension benefits was \$8,165.7 million at June 30, 2017.
- The Pension Plan funded ratio was 61.8% at June 30, 2017.

OPEB Highlights

- The unfunded actuarial accrued liability for the OPEB Plan was \$657.7 million at June 30, 2017.
- The actuarial value of assets available to pay OPEB benefits was \$38.9 million at June 30, 2017.
- The OPEB Plans' funded ratio was 5.6% at June 30, 2017.

Member and Retiree Data

PENSION PLAN	Employee	Teacher	Police	Fire	Total
Active Members					
Average Age	49.2	46.1	39.1	41.3	46.9
Average Service	11.1	13.5	11.0	13.2	12.1
Average Annual Pay	\$48,187	\$60,932	\$70,104	\$75,392	\$55,708
Retired Members					
Average Age	71.5	70.9	63.9	66.0	70.2
Average Annual Pension	\$13,451	\$21,804	\$35,903	\$39,033	\$19,788
Total Membership					
Active	24,478	17,617	4,151	1,640	47,886
Retired	17,573	12,696	3,786	1,639	35,694
Terminated - Vested	1,207	941	115	18	2,281

OPEB PLANS (Medical Subsidy)	Number of Retirees	One-Person Coverage		Two-Person Coverage	
		Pre-65	Post-65	Pre-65	Post-65
	10,005	715	8,012	777	501

Financial Accounting Data

In addition to actuarial funding data provided in this Summary report, the retirement system's more detailed Comprehensive Annual Financial Report (CAFR) also includes financial accounting data required under Governmental Accounting Standards Board (GASB) statements No. 67, which deals with financial reporting for pension plans, and No. 74, which deals with financial reporting of OPEB benefits, i.e. the Medical Subsidy.

This information is for accounting purposes only and does not impact employer contribution rates or the statutory funding plan in place to pay down the NHRS unfunded liability.

To view the CAFR, see: <https://www.nhrs.org/funding-and-investments/reports-valuations>

For additional information on GASB reporting, see: <https://www.nhrs.org/employers/gasb>



Contact Information

New Hampshire Retirement System
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 Telephone: (603) 410-3500 • Toll Free: (877) 600-0158 • Fax: (603) 410-3501
 Email: info@nhrs.org • Website: www.nhrs.org

Hours of Operation
 Monday–Friday
 8:00 a.m. to 4:00 p.m.

NHRS 50th Anniversary



NHRS marked its 50th birthday in 2017 – on July 1, to be exact. For five decades, the retirement system has played an important role in securing the economic well-being of New Hampshire’s retired public employees, teachers, police officers, and firefighters.

To mark this golden anniversary, staff posted facts about the retirement system, photos of current and former members, and other related material to our website and on social media channels throughout the year.

For more information on this anniversary, see: <https://www.nhrs.org/about-nhrs/nhrs-50-years>

A COMMENDATION

In the Year of our Lord Two Thousand and Seventeen

NEW HAMPSHIRE RETIREMENT SYSTEM 50TH ANNIVERSARY

WHEREAS, the New Hampshire Retirement System, which was created by legislation as a consolidation of separate retirement systems for state employees, teachers, police officers, and firefighters, is celebrating the 50th anniversary of its founding this year; and

WHEREAS, the New Hampshire Retirement System is a component unit of state government, governed by statute and overseen by a Board of Trustees consisting of members, employers, public members, and the state Treasurer, all of whom are fiduciaries bound by law to act solely in the interest of the participants and beneficiaries of the pension plan; and

WHEREAS, the New Hampshire Retirement System provides pension, disability, and death benefits for the full-time employees of more than 475 public employers and has paid out more than \$670 million dollars in pension benefits in fiscal year 2016 to over 31,000 retirees and beneficiaries, most of whom continue to reside in New Hampshire; and

WHEREAS, the New Hampshire Retirement System has a large membership equating to 92,158 members in 2016, and its pension trust fund has grown to eight billion dollars, most of which comes from investment income; and

WHEREAS, the New Hampshire Retirement System provides stable, secure pension benefits to those who serve the citizens of New Hampshire;

NOW, THEREFORE, I, CHRISTOPHER T. SUNUNU, GOVERNOR of the State of New Hampshire, do hereby commend the NEW HAMPSHIRE RETIREMENT SYSTEM on celebrating its 50th Anniversary and wish you all the best in the future.