

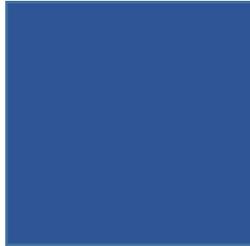
NHRS

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

Summary Annual Financial Report
For the Fiscal Year Ended
June 30, 2020



**HERE TODAY
FOR YOUR
TOMORROW**



**Our Mission: To provide secure
retirement benefits and superior service**



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.



NHRS

New Hampshire Retirement System

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

Timothy Lesko, Chair
Scott Christensen
Maureen Kelliher
Robert Maloney

Employee Members

Melvin Friese, Employee
Sue Hannan, Teacher
William Hart, Police
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Employer Members

Christopher Coates, NH Assoc. of Counties
Benjamin Jean, State of New Hampshire
Scott Myers, NH Municipal Assoc.
Donald M. Roy, NH School Boards Assoc.

Ex Officio Member

Monica Mezzapelle, 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
Christine Clinton
Daniel LaPlante
Timothy Lesko
Keith Quinton
Michael McMahon

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, 2020. 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 calculated 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 48,479 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 39,612 benefit recipients and 9,509 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 461 active, 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 at June 30, 2020, stood at \$9.134 billion, a decrease of \$73.5 million (0.8%) from the prior year's net position.
- Net investment income during fiscal year 2020 was \$101.4 million, a \$388.8 million (79.3%) decrease over the prior fiscal year. The net investment income for fiscal year 2020 reflects a time-weighted return for the total fund during the year of 1.1% compared to a time-weighted investment return of 5.7% for the fiscal year ended June 30, 2019.
- The total contributions received during the fiscal year were \$721.2 million. For fiscal year 2019, total contributions received were \$703.9 million.
- Employer contributions for fiscal year 2020 increased to \$491.5 million (2.4%) compared with employer contributions in fiscal year 2019 of \$479.9 million. The increase in employer contributions in fiscal year 2020 was primarily due to growth in covered payroll.
- Member contributions were \$229.7 million in fiscal year 2020, an increase of 2.5% over fiscal year 2019 member contributions of \$224.0 million. The increase in member contributions is primarily due to an increase in earnable compensation for contributing members. Overall member normal contributions increased by \$6.5 million (3.0%) over the prior fiscal year. Voluntary member contributions decreased by \$0.8 million (17.0%) over fiscal year 2019.
- Benefits paid during fiscal year 2020 were \$863.5 million, an increase of 4.2% over the benefits paid in fiscal year 2019 of \$828.7 million. The increase in benefits paid in fiscal year 2020 is primarily due to an increase in the number of retirees and increased average benefit levels for those new retirees.

Legislative Changes

No legislation related to NHRS was enacted in the 2020 session.

Major Initiatives

Some of the significant accomplishments during fiscal year 2020 were:

- Maintained normal business operations despite shifting most staff to remote work due to the COVID-19 pandemic.
- Improved the funding of the pension trust by adjusting demographic and economic assumptions based on the results of a four-year actuarial experience study.
- Continued design and testing related to a multi-year upgrade to core pension administration system, which remains on time and on budget.
- Improved service levels by developing and implementing a Contact Center to respond to all forms of member and retiree contact.
- Completed rebalance of the non-U.S. equity portfolio.
- Implemented secure online payment capability, enabling participating employers to make contribution payments via ACH at no cost to them.
- Developed comprehensive contract administration process.
- Completed website update project, which enhanced member, retiree and employer home pages to display "need to know" information more prominently, improved ADA compliance, and made other functional improvements.
- Completed and/or updated training manuals for all staff positions.
- Issued the June 30, 2019, GASB 68 and 75 report with unmodified (clean) opinions.

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

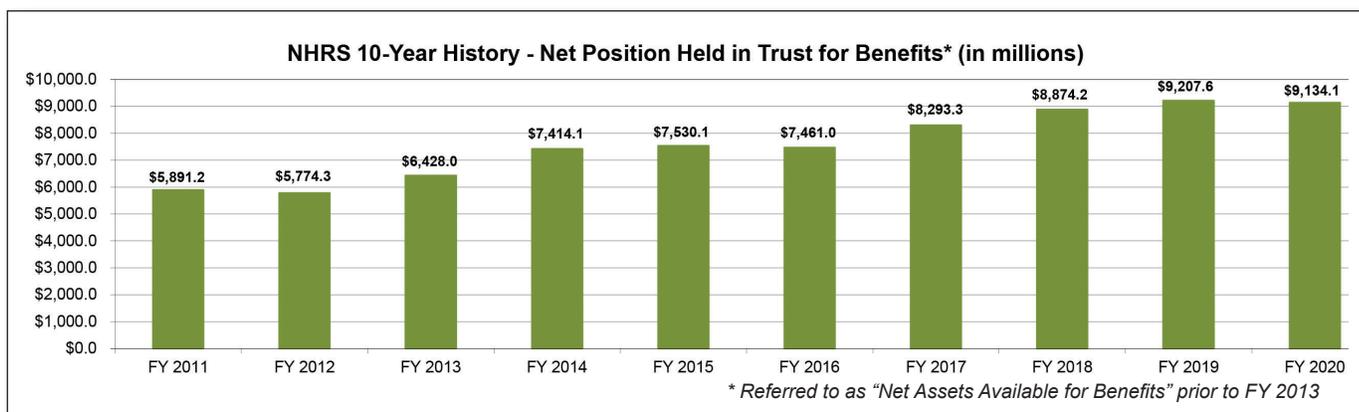
(\$ in millions)

<i>The Condensed 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.</i>	As of June 30, 2020	As of June 30, 2019	Amount Increase (Decrease)	Percent Increase (Decrease)
Cash	\$ 231.7	\$ 234.6	\$ (2.9)	(1.2%)
Receivables	99.2	120.5	(21.3)	(17.7%)
Investments	8,826.2	8,894.5	(68.3)	(0.8%)
Other Assets	2.8	1.1	1.7	154.5%
Total Assets	\$9,159.9	\$9,250.7	\$(90.8)	(1.0%)
Other Liabilities	25.8	43.1	(17.3)	(40.1%)
Total Liabilities	\$ 25.8	\$ 43.1	\$ (17.3)	(40.1%)
Net Position Restricted for Pension and OPEB	\$9,134.1	\$9,207.6	\$ (73.5)	(0.8%)

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

(\$ in millions)

<i>The Condensed Statements of Changes in Plan Net Position provide a summary of the flow of money into (additions) and out of (deductions) the plan throughout the fiscal year.</i>	As of June 30, 2020	As of June 30, 2019	Amount Increase (Decrease)	Percent Increase (Decrease)
ADDITIONS:				
Employer Contributions	\$ 491.5	\$ 479.9	\$ 11.6	2.4%
Member Contributions	229.7	224.0	5.7	2.5%
Net Investment Income (Loss)	101.4	490.2	(388.9)	(79.3%)
Total Additions to Net Position	\$ 822.6	\$ 1,194.1	\$ (371.5)	(31.1%)
DEDUCTIONS:				
Benefits Paid	\$ 863.5	\$ 828.7	\$ 34.8	4.2%
Refunds of Contributions	23.3	23.5	(0.2)	(0.9%)
Administrative Expense	8.5	7.6	0.9	11.8%
Other Deductions	0.8	0.9	(0.1)	(11.1%)
Total Deductions from Net Position	\$ 896.1	\$ 860.7	\$ 35.4	4.1%
Total Changes in Net Position	\$ (73.5)	\$ 333.4	\$ (406.9)	(122.0%)



Investment Performance

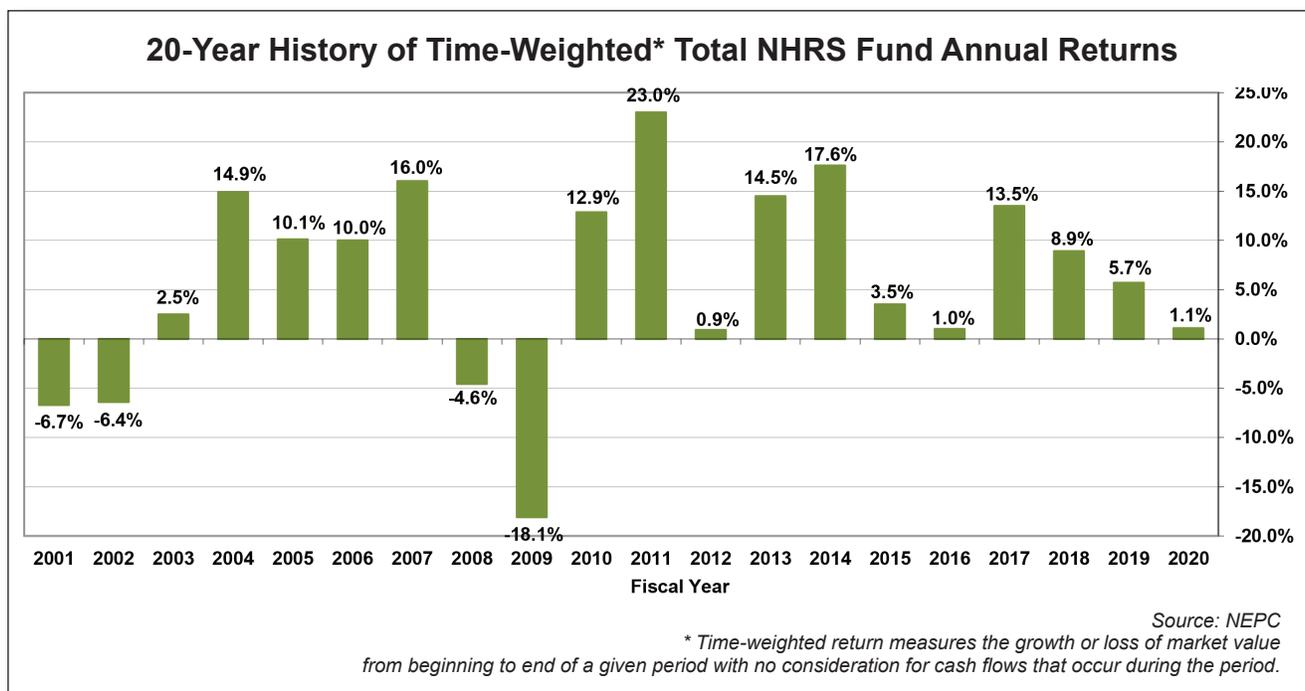
Investment returns are reported net of investment expenses and are measured against a total fund custom index. The total fund custom index (see below) is a blend consisting of major market indices in proportion to the retirement system's asset allocation; this index changes as strategies and objectives evolve over time. The retirement system's assumed rate of investment return is 6.75%.

The results of the plans' investment program for the period ended June 30, 2020, are as follows:

- For fiscal year 2020, the total fund investment return of 1.1% underperformed the total fund custom index return of 4.8%. For this period, the individual asset classes generated the following performance: domestic equity 0.4%; non-U.S. equity -4.9%; fixed income 6.5%; real estate 3.5%; and alternative investments 0.5%.
- The three-year, five-year, 10-year, 20-year, and 25-year returns for the periods ended June 30, 2020, were 5.2%, 5.9%, 8.7%, 5.4%, and 7.5%, respectively. All returns are net of fees.

	Current Year 2020	Annualized		
		3-Year	5-Year	10-Year
Total NHRS Fund	1.1%	5.2%	5.9%	8.7%
Total Fund Custom Index*	4.8%	6.7%	6.9%	9.3%

* For June 30, 2020, 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) Two-thirds S&P 500 Index + 3%; and (2) One-third S&P LSTA Leveraged Loan 100 Index.



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.

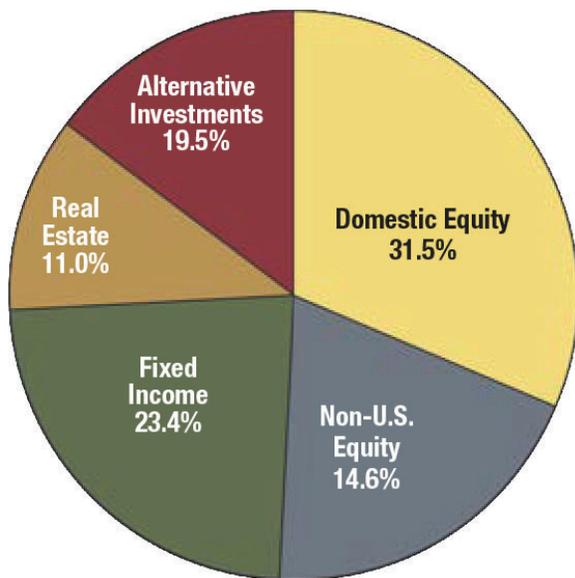
The actual and target asset allocations as of June 30, 2020, for NHRS are shown on the charts below. Domestic Equity is primarily made up of stocks in U.S. companies. Non-U.S. Equity contains stocks of foreign companies. Fixed Income includes bonds and cash with the objectives of providing current income 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:

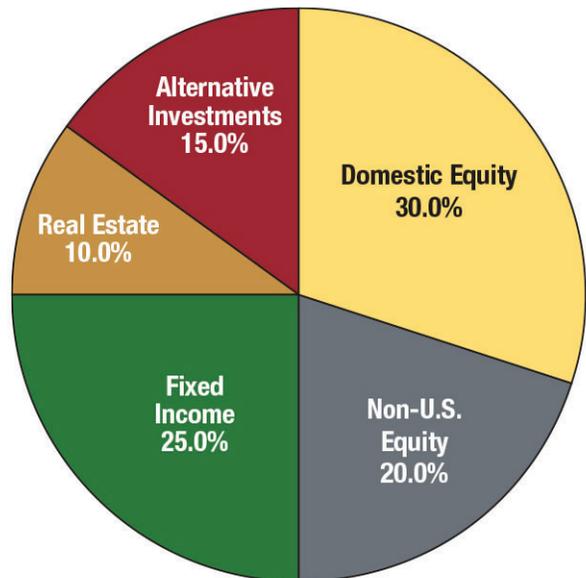
<https://www.nhrs.org/funding-and-investments/reports-valuations>

Actual Asset Allocation Versus Target Asset Allocation

Actual Asset Allocation as of June 30, 2020



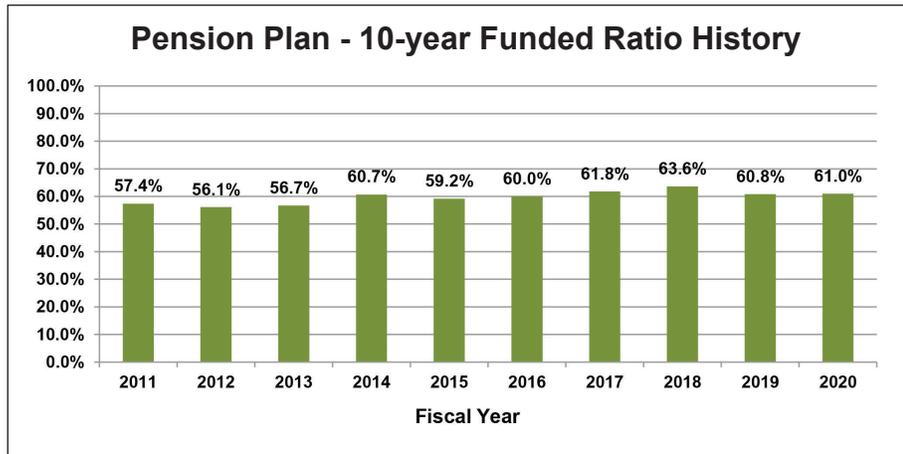
Target Asset Allocation as of June 30, 2020



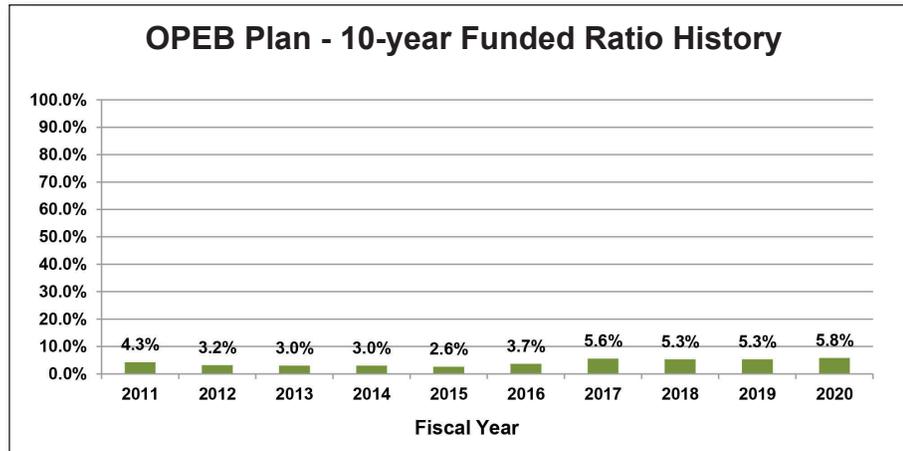
Actuarial Funding Progress

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, 2020, the funded ratio for the pension plan was 61.0%. This means that the actuarial value of the retirement system’s assets is 61.0% 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, 2020, of 5.8%. 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, FY 2016, and FY 2020.



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 \$6,040.2 million at June 30, 2020.
- The actuarial value of assets available to pay pension benefits was \$9,447.8 million at June 30, 2020.
- The Pension Plan funded ratio was 61.0% at June 30, 2020.

OPEB Highlights

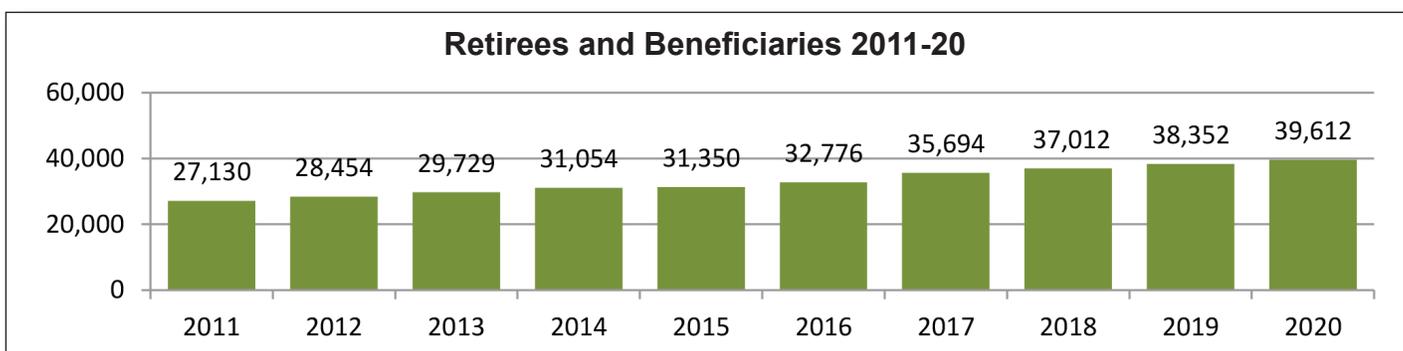
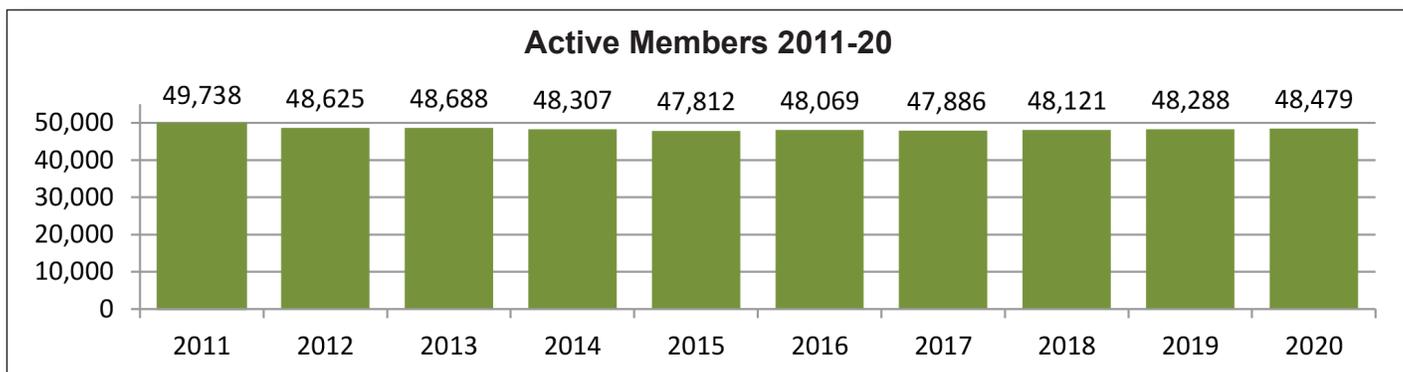
- The unfunded actuarial accrued liability for the OPEB Plan was \$656.6 million at June 30, 2020.
- The actuarial value of assets available to pay OPEB benefits was \$38.1 million at June 30, 2020.
- The OPEB Plans’ funded ratio was 5.8% at June 30, 2020.

Fiscal Year 2020 Member and Retiree Data

PENSION PLAN	Employee	Teacher	Police	Fire	Total
Active Members					
Average Age	49.0	45.8	39.0	41.3	46.7
Average Service	10.8	13.3	10.8	13.1	11.8
Average Annual Pay	\$51,809	\$64,792	\$75,891	\$79,949	\$59,711
Retired Members					
Average Age	72.2	72.2	64.7	67.0	71.2
Average Annual Pension	\$14,210	\$22,466	\$37,357	\$41,365	\$20,841
Total Membership					
Active	24,602	17,917	4,256	1,704	48,479
Retired	19,434	14,198	4,227	1,753	39,612
Terminated - Vested	1,402	1,100	133	26	2,661

OPEB PLANS (Medical Subsidy)	Number of Retirees	One-Person Coverage		Two-Person Coverage	
		Pre-65	Post-65	Pre-65	Post-65
	9,509	582	7,778	659	490

Historical Member and Retiree Data



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.

The GASB 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/employer-resources/gasb>



Contact Information

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Hours of Operation

Monday–Friday

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