

New Hampshire Retirement System Overview

February 2021



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Overview



- **NHRS is a contributory, multi-employer, defined benefit plan established in 1967**
- **Provides retirement, disability, and death benefits, as well as a post-retirement Medical Subsidy, to eligible members and beneficiaries**
- **Once members attain eligibility, they can receive a guaranteed lifetime pension**
- **Pension benefits are funded through employee and employer contributions and investment income**
 - **Investment returns have historically provided the majority of funding for pension benefits**

- **NHRS is a component unit of state government overseen by a Board of Trustees**
 - Board of Trustees and Independent Investment Committee are fiduciaries
- **NH Legislature is the plan sponsor (RSA 100-A)**
- **NHRS staff implements statute, rules, policies**
 - Internal Revenue Code
- **NH Constitution Art. 36-a**
 - Protects funds ‘for the exclusive purpose’ of providing benefits
 - Requires Board to certify employer rates based on sound actuarial practice
 - Requires employers to pay the rates certified

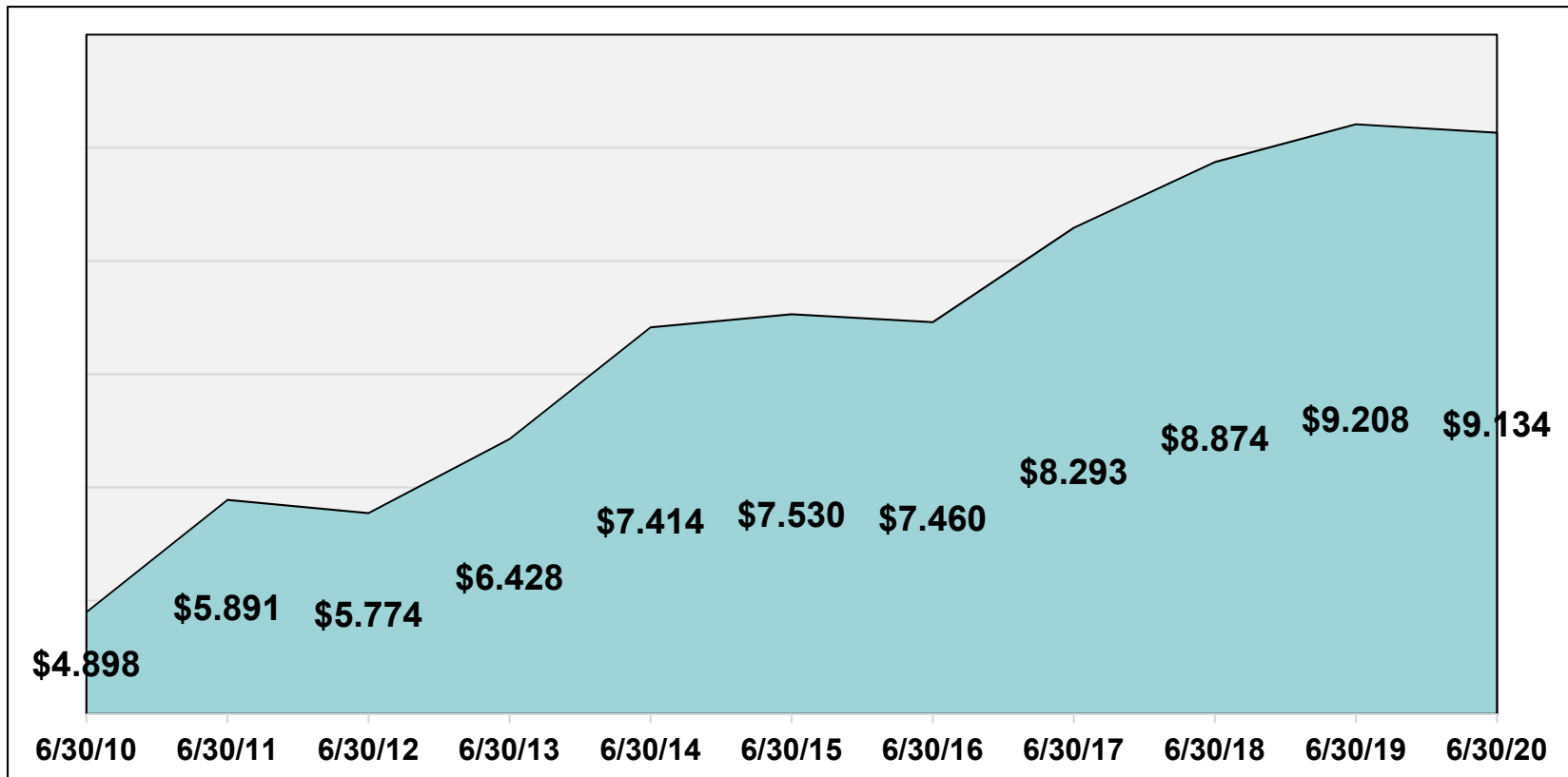
- **NHRS Trustees have a fiduciary obligation to ensure that the plan is adequately funded**



Equation must balance in the long term

- **NHRS Trust Fund at 6/30/20: \$9.134 billion**

- Assets in Billions: June 30, 2010 to present**



- **Recent NHRS initiatives**
 - **Cyber security enhancements and training**
 - **Enhanced education/outreach for members, employers and the general public**
 - **Pension application upgrade ('PGv3')**
 - **Contact Center**
 - **Executive Director search**

- **Significant developments since 2007**
 - **2007: Change in actuarial methodology**
 - **2009: Independent Investment Committee formed**
 - **2010: 30-Year Amortization of UAAL begins**
 - **2011: Board reduced rate of return to 7.75%**
 - **2011: HB 2 – Increased member contributions; reduced benefit accruals; changed composition of NHRS Board; eliminated state employer contribution subsidy to political subdivisions**
 - **2014-16: NH Supreme Court upholds legislative changes**
 - **2016: Board reduced rate of return to 7.25%**
 - **2017: Decennial Commission**
 - **2020: Board reduced rate of return to 6.75%**

Membership



- **Group I**
 - **Employees**
 - **Teachers**
- **Group II**
 - **Police**
 - **Fire**
- **461 active participating employers**
 - **State of NH, counties, school districts, communities, and other political subdivisions**

Membership

At June 30, 2020



	Employees	Teachers	Police	Fire	Total
Active	24,602	17,917	4,256	1,704	48,479
Retiree/ Beneficiary	19,434	14,198	4,227	1,753	39,612

- **Active Members**
 - **Average Age: 46.7**
 - **Average Service: 11.8 years**

- **Retirees**
 - **Average Age: 71.2**
 - **Average benefit: \$20,841**

- **In FY 2020, \$816.7 million in pension benefits were paid to retirees and beneficiaries**
- **In the same period, \$46.8 million in post-retirement Medical Subsidy payments were paid on behalf of eligible retirees and beneficiaries**
- **Nearly 80% of annuitants live in NH**

- **Four types of retirement: service, disability, early, and vested deferred**
- **Different benefit provisions apply to Group I and Group II**
- **Different benefit provisions apply based on vested status and date of hire**
- **Pension benefits are determined by statutory formulas that consists of three components:**
 - **Creditable Service**
 - **Average Final Compensation**
 - **Benefit Multiplier**

Benefits

Average Annual Pension Benefits at June 30, 2020



Group I

- **Employee: \$14,210**
- **Teacher: \$22,466**

Group II

- **Police: \$37,357***
- **Fire: \$41,365***

All Retirees

- **Average: \$20,841**

Note: Plan does not include automatic cost-of-living adjustments

** Group II members do not participate in Social Security*

Benefits

Distribution of Benefits at 12/31/20



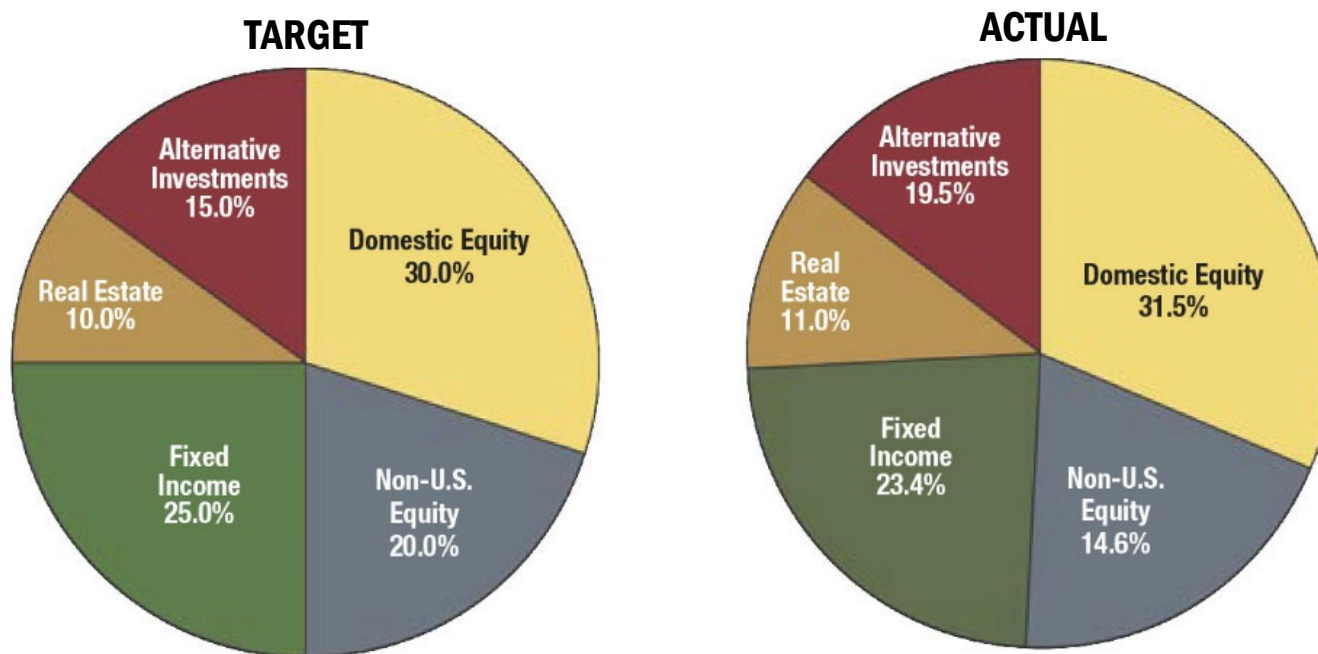
- **Annual benefit under \$10k: 28%**
- **Annual benefit under \$25k: 65%**
- **Annual benefit under \$50k: 94%**
- **Annual benefit greater than \$75k: 1.4%**

- **Board of Trustees**
 - Approves investment policy, including asset allocation
 - Hires investment consultant
- **Independent Investment Committee**
 - Created by Legislature, effective Jan. 1, 2009
 - Recommends investment policy to the Board
 - Oversees the administration of the investment program within Board's policies
 - Hires investment service providers, such as the custodian and investment managers
 - Prepares a Comprehensive Annual Investment Report (CAIR) for approval by the Board

Investments

Strategy

- Reviewed regularly
- Long-term time horizon (25-plus years)
- Manage risk and liquidity
- Diversified portfolio among different types of assets
- Target and actual asset allocation at 6/30/20



Investments

At June 30, 2020



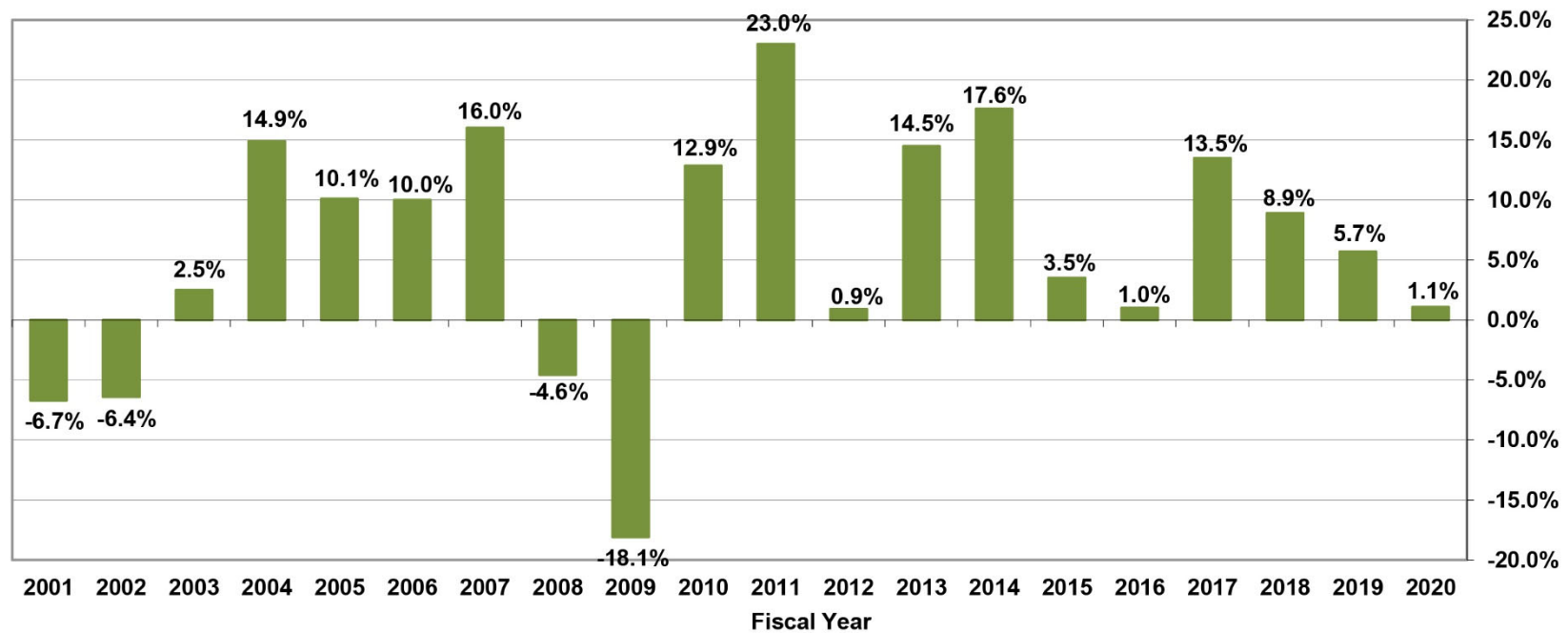
- **One-year return on investments: 1.1%**
- **Three-year return: 5.2%**
- **Five-year return: 5.9%**
- **10-year return: 8.7%**
- **20-year return: 5.4%**
- **25-year return: 7.5%**

Assumed rate of return is 6.75%

Investments

At June 30, 2020

- Annual returns, 2001-20



Source Data: Time-weighted annual returns (net of fees) provided by NEPC, LLC

Investments

At June 30, 2020



- **Investment performance better than 74% of peers over past 10 years**
- **Since inception, IIC performance relative to the peer median has added more than \$275 million to Trust Fund**

Contributions/Funding



- **Member Contributions**
 - **Set by statute**
 - **Employees: 7%**
 - **Teachers: 7%**
 - **Police: 11.55%**
 - **Fire: 11.8%**
- **Employer Contributions**
 - **Actuarially determined then certified by Trustees on biennial basis**
 - **Consist of three parts: Normal cost, UAAL, Medical Subsidy**
 - **Separate rates for each member group**
 - **Local employers have paid 100% of contributions for teachers, police and fire since state subsidy was repealed in 2011**

Contributions/Funding



- **Normal Cost**
 - Estimated annual cost of pension benefits as they are earned
- **Unfunded Liability**
 - Estimated value of accrued NHRS benefits not yet funded
 - \$6.04 billion at the close of FY 2020, a funded ratio of 61.0%
 - The result of artificially low employer contributions coupled with transfer of 'excess' investment earnings to Special Account over an extended period beginning in early '90s
 - Exacerbated by Great Financial Crisis (2008-09)
 - Further impacted by reductions in assumed rate of return in 2011, 2016, and 2020
 - Statutory structure to amortize bulk of UAAL through 2039
 - Future biennial gains or losses incurred after 7/1/17 amortized over closed periods of no more than 20 years
- **Medical Subsidy**
 - Closed benefit; funded at pay-go rate

Contributions/Funding



- **Biennial Actuarial Valuation**
 - **Calculates funding status**
 - **Used to set employer rates per statute**
 - **Based upon assumptions from most recent experience study**
- **Actuarial Experience Study**
 - **Required by law at least every five years**
 - **Conducted every four years per Board policy**
 - **Evaluates assumptions**
 - **Demographic Assumptions**
 - **Economic Assumptions, including assumed rate of investment return**

Contributions/Funding

Experience Study



- **What action did the Board take?**
 - **Adopted proposed changes to demographic assumptions based on a four-year experience study conducted by GRS (FYs 2016-19)**
 - **Adopted revised economic assumptions, based on recommendations from the actuary:**
 - **Reduced wage inflation from 3.25% to 2.75% (2.25% for teachers)**
 - **Reduced price inflation from 2.5% to 2.0%**
 - **Reduced the assumed rate of return from 7.25% to 6.75%**
 - **Increased the medical subsidy margin for teachers from .20% to .50%**

Contributions/Funding *Experience Study*



- **Why did the Board take those actions?**
 - **The actual experience of the system over the past 4 years indicated that the assumptions did not support the actual cost of the plan going forward**
 - **Economic and investment forecasts provided to the Board indicated limited inflation and reduced prospects for investment returns**
 - **The Trustees are fiduciaries subject to constitutional and legal requirements:**
 - **To determine employer contribution rates “by sound actuarial valuation and practice”**
 - **To act solely in the interest of the plans participants and beneficiaries**

Contributions/Funding



- **Primary drivers on FY 22-23 rates**
 - Reduction of the assumed rate of investment return from 7.25% to 6.75%
 - Adoption of updated post-retirement mortality assumptions
 - Reduction in the payroll growth factor
- **Additional influences on rates**
 - COLA increased the employer contribution rates an additional 0.11% to 0.34% as a percent of payroll, depending on the member classification, and decreased the funded ratio of the pension plan by 0.2%
 - Because it was only enacted recently, layered amortization has only a minor impact on the FY 22-23 contribution rates, although it did, in fact, reduce the impact of the assumption changes slightly

Contributions/Funding

UAAL as a % of Employer Pension Rate – FY 2022-23



Member Category	Pension: Normal Cost	Pension: UAAL	UAAL as a % of Total Pension Cost	Medical Subsidy	Total Employer Rate
Emp. – State	2.58%	11.17%	81.2%	0.78%	14.53%
Emp. – P. Sub.	2.58%	11.17%	81.2%	0.31%	14.06%
Teacher	2.82%	16.66%	85.5%	1.54%	21.02%
Police	6.72%	23.95%	78.1%	3.21%	33.88%
Fire	7.07%	22.71%	76.3%	3.21%	32.99%

Member share of normal cost: Employee: 73%; Teacher: 71%; Police: 63% Fire: 63%

Contributions/Funding

Pension liabilities and costs for New England states

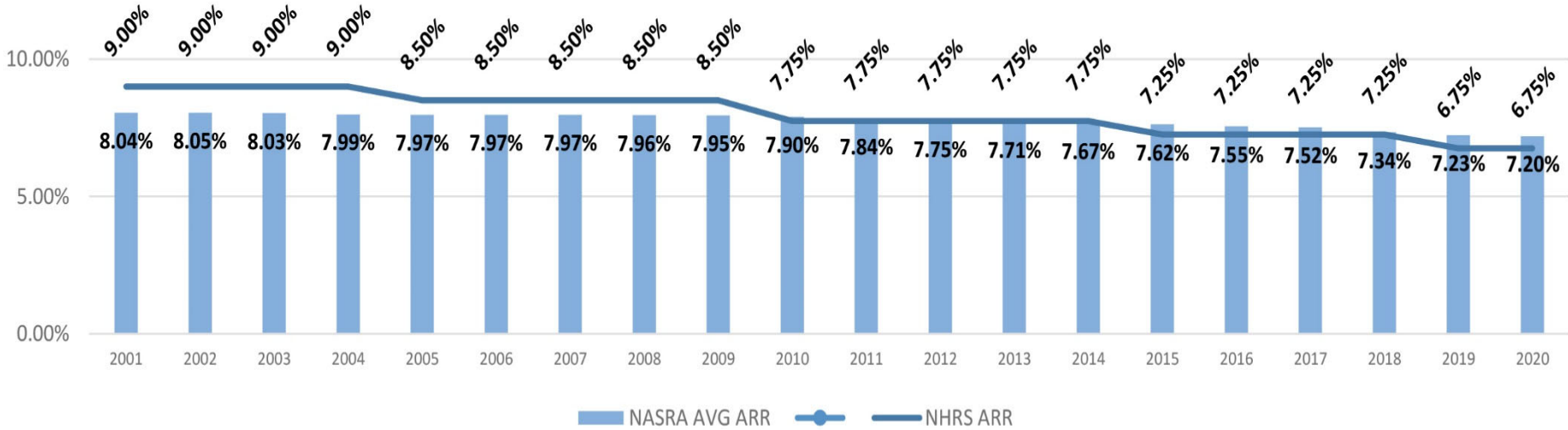
	Adjusted Net Pension Liability as % of Personal Income	Rank	Pension contributions as % of Direct General Spending by State and Local Governments	Rank
NH	1.5%	10th	3.91%	24th
Conn.	16.7%	48th	10.27%	50th
Maine	5.3%	36th	3.33%	14th
Mass.	10.6%	44th	4.23%	32nd
R.I.	7.6%	38th	6.34%	45th
Vermont	9.7%	43rd	2.82%	7th
Nat. Avg.	2.7%	-	5.16%	-

*Source: Fitch Ratings, Oct. 2020; based on FY 2019 data.
Note: Adjusted NPL calculated by applying a 6% assumed rate of return to all plans.*

Source: NASRA, Dec. 2020; based on FY 2018 data

Contributions/Funding Experience Study

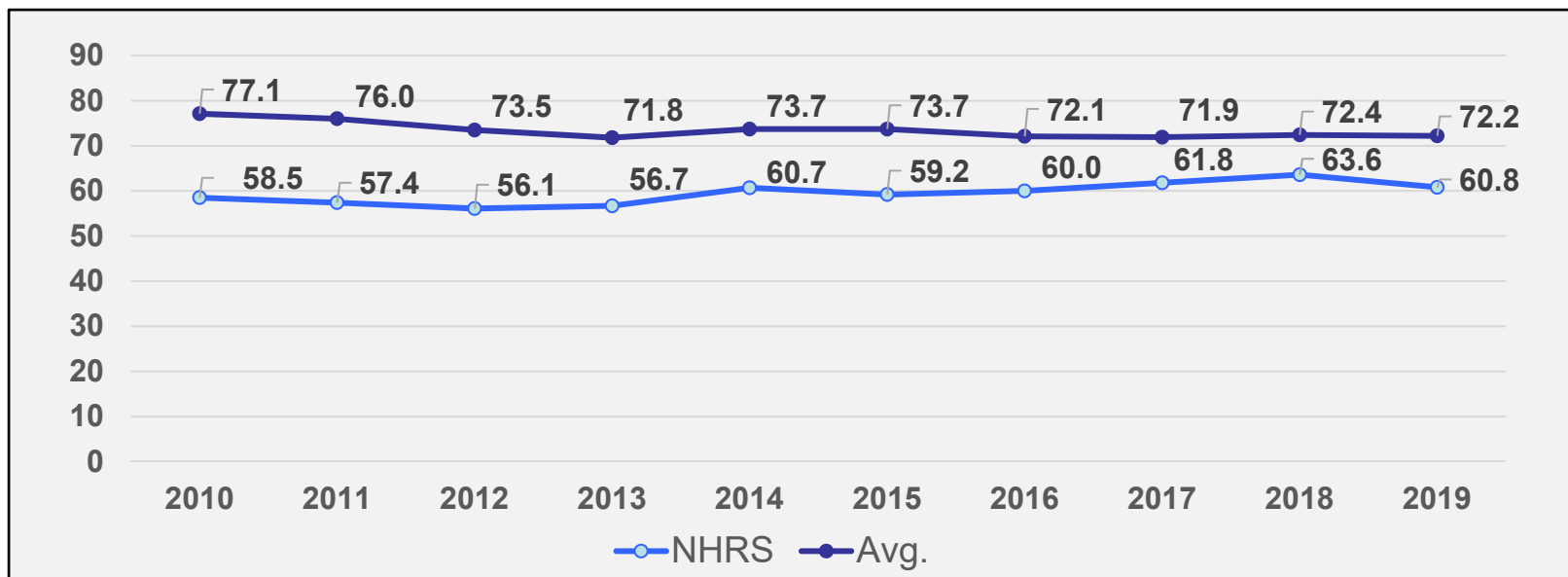
- NHRS ARR vs. National Average**



Source: National Association of Retirement System Administrators

Contributions/Funding

- **Funded ratio relative to peers – FY 2010-19**



Source: NASRA, Nov. 2020

Contributions/Funding



- **Key Takeaways**
 - **The Board is bound by legal and constitutional requirements with respect to determining contribution rates**
 - **Revising the assumptions was necessary to properly fund the plan over the long term**
 - **Increased employer contributions strengthen the plan, position it to better withstand economic downturns and promotes intergenerational equity**
 - **These changes do not change the cost of the plan, only the timing of the payments**

- **2020 session**
 - **13 NHRS-related bills introduced**
 - **No bills enacted into law**
- **2021 session**
 - **10 bills introduced**
- **Since 2007, more than 100 changes have been made to the statute governing NHRS**

- **Provide data and objective analysis**
 - **Fiscal Note Worksheets**
 - **“Bill Briefs”**
 - **Testimony**
 - **Informational materials (annual reports, actuarial valuations, etc.)**

- **Closing thoughts**
 - **NHRS provides a modest pension benefit**
 - Majority of pension payments remain in-state and support local economy
 - **Plan is in place to pay down unfunded liability and manage future volatility**
 - **Board has been taking responsible steps to assure proper plan funding, as reflected in:**
 - The decisions to reduce the ARR over the past 10 years
 - The improvement in NHRS' funded ratio, relative to the NASRA average, despite the impact of the reductions in the ARR
 - **This is a marathon, not a sprint -- and there are no shortcuts**

Appendices

Board of Trustees

The members of the New Hampshire Retirement System (NHRS) Board of Trustees are appointed and serve pursuant to RSA 100 A:14

Public Members

Tim Lesko, *Chair*
Scott Christensen
Maureen Kelliher
Robert Maloney

Employer Members

Donald Roy, *N.H. School Boards Assoc.*
Scott Myers, *N.H. Municipal Association*
Vacant, *State of N.H.*
Christopher Coates, *N.H. Assoc. of Counties*

Employee Members

Melvin Friese, *Employee*
Sue Ellen Hannan, *Teacher*
Andrew Martineau, *Fire*
William Hart, *Police*

Ex Officio Member

Monica Mezzapelle, *State Treasurer*

Independent Investment Committee

The members of the NHRS Independent Investment Committee are appointed and serve three-year terms pursuant to RSA 100-A:14-b

Trustee Members

Maureen Kelliher, *Chair*

Tim Lesko

Public Members

Christine Clinton

Keith Quinton

Daniel LaPlante

Active Participant Member

Michael McMahon

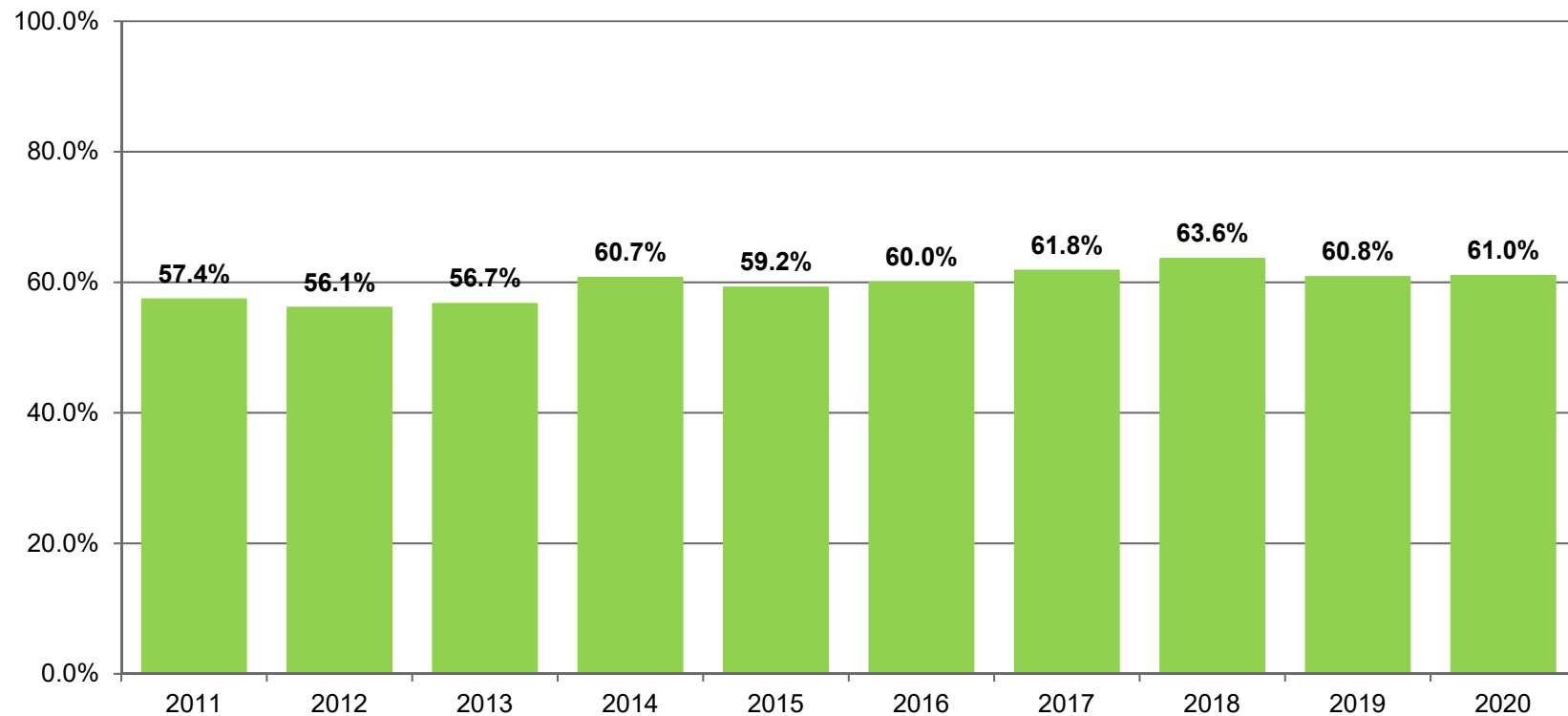
“Each member of the independent investment committee shall have substantial experience in the field of institutional investment or finance, other than their experience as trustees of the New Hampshire retirement system, taking into account factors such as educational background, business experience, and professional licensure and designations.”

(RSA 100-A:14-b II.)

Appendix

Trust Fund Assets

- **Actuarial funded ratio: June 30, 2011 to June 30, 2020**



Funded ratio impacted by reductions to assumed rate of return and revised actuarial assumptions in 2011, 2016, 2020

Appendix

Members and Beneficiaries 2011-2020



- **Active Members**

- **2020: 48,479**
- **2019: 48,288**
- **2018: 48,121**
- **2017: 47,886**
- **2016: 48,069**
- **2015: 47,812**
- **2014: 48,307**
- **2013: 48,688**
- **2012: 48,625**
- **2011: 49,738**

- **Retirees/Beneficiaries**

- **2020: 39,612**
- **2019: 38,352**
- **2018: 37,012**
- **2017: 35,694**
- **2016: 32,776**
- **2015: 31,350**
- **2014: 31,054**
- **2013: 29,729**
- **2012: 28,454**
- **2011: 27,130**

Appendix

Membership Data at June 30, 2020



- State vs. Political Subdivision**

	Employees	Teachers	Police	Fire	Total
State	9,820	0	1,106	66	10,992
Political Subs.	14,782	17,917	3,150	1,638	37,487
Total	24,602	17,917	4,256	1,704	48,479

- Membership by Gender**

	Employees	Teachers	Police	Fire	Total
Female	14,946	14,160	617	48	29,771
Male	9,656	3,757	3,639	1,656	18,708
Total	24,602	17,917	4,256	1,704	48,479

Benefits

Group I Service Retirement: Hired On/After 7/1/11



- **Service Retirement Age: 65**
- **Service Retirement Formula:
AFC divided by 66, multiplied by
creditable service = annual pension**

 $\$50,000 \div 66 = \$758 \times 30 \text{ years} = \$22,727$

Appendix

Group II Service Retirement: Hired On/After 7/1/11



- **Service Retirement Age: 52.5 (with minimum 25 years of service)**
- **Service Retirement Formula:
AFC multiplied by 0.20%, multiplied by
creditable service = annual pension**

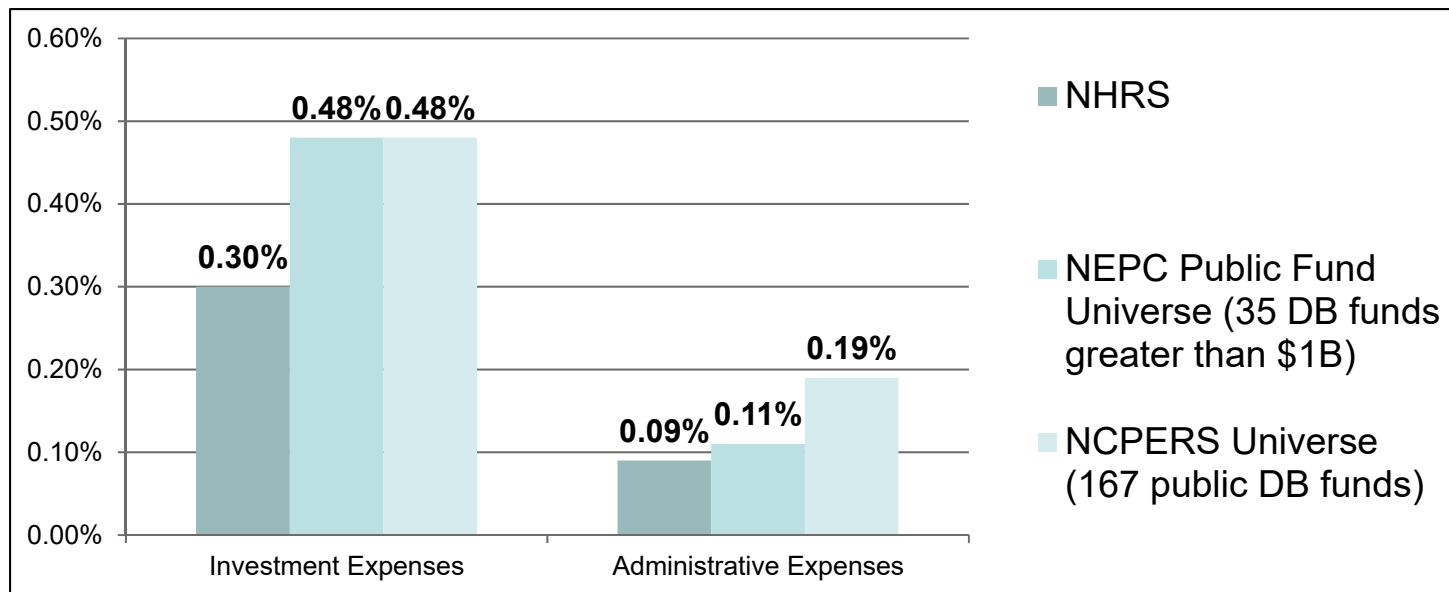
$$**\$50,000 \times 0.20 = \$1,000 \times 25 \text{ years} = \$25,000**$$

Note: Group II members do not participate in Social Security

Appendix

Expenses

- **NHRS investment and administrative expenses are paid from the pension Trust Fund, not the General Fund**
- **NHRS expenses as a percentage of assets**



Most recent data available (NCPERS - FY 2019; NEPC - FY 2019)

Appendix

Employer Rates – FY 2020-21



	Employer Pension Cost		Medical Subsidy	Total Employer Rate
	Normal Cost	UAAL		
GROUP I				
Emp. - State	1.92%	8.96%	1.05%	11.93%
Emp. - P. Sub.	1.92%	8.96%	0.29%	11.17%
Teachers	1.86%	14.13%	1.81%	17.80%
GROUP II				
Police	5.04%	19.73%	3.66%	28.43%
Fire	6.35%	20.08%	3.66%	30.09%

Appendix

Employer Rates – FY 2022-23



	Employer Pension Cost		Medical Subsidy	Total Employer Rate
	Normal Cost	UAAL		
GROUP I				
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GROUP II				
Police	6.72%	23.95%	3.21%	33.88%
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Appendix

Timeline for Setting Employer Rates



- **Biennial Actuarial Valuations**
 - **6/30/19 valuation determined FY 2022-23 rates**
 - **6/30/21 valuation will determine FY 2022-23 rates**
- **Biennial NHRS Trustee Rate Certification**
 - **9/20 Trustees certified FY 2022-23 rates**
 - **9/22 Trustees will certify FY 2024-25 rates**

The New Hampshire Retirement System (NHRS) is governed by New Hampshire RSA 100-A, rules, regulations, and Federal laws including the Internal Revenue Code. NHRS also implements policies adopted by the Board of Trustees. These laws, rules, regulations, and policies are subject to change. Even though the goal of NHRS is to provide information that is current, correct, and complete, NHRS does not make any representation or warranty as to the current applicability, accuracy, or completeness of any information provided. The information herein is intended to provide general information only, and should not be construed as a legal opinion or as legal advice. Members are encouraged to address specific questions regarding NHRS with an NHRS representative. In the event of any conflict between the information herein and the laws, rules, and regulations which govern NHRS, the laws, rules, and regulations shall prevail.