



New Hampshire Retirement System

Overview for House Finance – Division I

February 2023



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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**

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Overview



- **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**

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Overview

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



Equation must balance in the long term

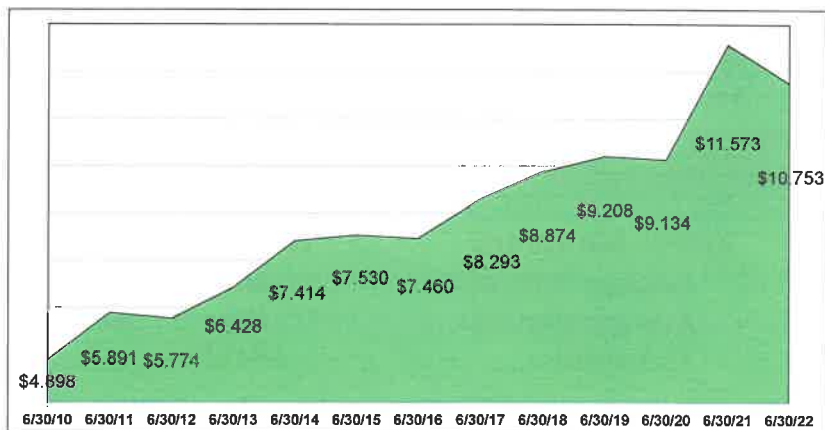
- NHRs Trust Fund at 6/30/22: \$10.75 billion

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Overview

- Assets in Billions: June 30, 2010 to present



Note: 2010 was the start of 30-year amortization of unfunded liability.

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Membership/Benefits

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

Membership/Benefits

At June 30, 2022

	Employees	Teachers	Police	Fire	Total
Active	24,644	18,217	4,103	1,723	48,687
Retiree/ Beneficiary	20,751	15,154	4,644	1,866	42,415

- | | |
|---|---|
| <ul style="list-style-type: none"> • Active Members <ul style="list-style-type: none"> • Average Age: 46.3 • Average Service: 11.4 years | <ul style="list-style-type: none"> • Retirees <ul style="list-style-type: none"> • Average Age: 71.7 • Average benefit: \$21,862 |
|---|---|

Membership/Benefits

- **In FY 2022, \$914 million in pension benefits were paid to retirees and beneficiaries**
- **In the same period, \$43.8 million in post-retirement Medical Subsidy payments were paid on behalf of eligible retirees and beneficiaries**
- **Nearly 80% of retirees and beneficiaries remain in N.H.**

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Membership/Benefits

- **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**

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Benefits

Distribution of Benefits at 12/31/22

- **Annual benefit under \$10k: 26%**
- **Annual benefit under \$25k: 64%**
- **Annual benefit under \$50k: 93%**
- **Annual benefit greater than \$75k: 1.8%**

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Investments

- **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**

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Investments At June 30, 2022

- One-year return at 6/30/22: -6.1%
- Three-year return: 7.1%
- Five-year return: 7.2%
- 10-year return: 8.5%
- 25-year return: 6.9%

FY 2023 annualized return through 11/30/22: 3.5%

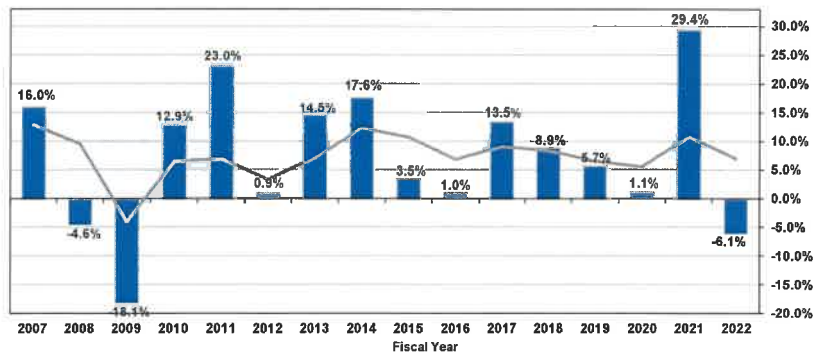
Assumed rate of return is 6.75%

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Investments At June 30, 2022

Time-Weighted Annual Returns Since 2007



Note: Gray line denotes actuarial return with 5-year smoothing.

Sources: Callan; GRS

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Investments

At June 30, 2022

- Performance through 6/30/22 better than 80% of peers over 10-year period (18th percentile)
- For the 13 years ending June 30, 2022, a period during which the IIC made the investment decisions, the fund outperformed 81% of peers
- The outperformance relative to the public defined benefit plan median for the 13 years ending 6/30/22 represents approximately \$325 million in additional returns

Source: Callan Public Fund Sponsor – Large Universe (greater than \$1 billion), which contains 111 public plans with \$2.0 trillion assets under management (AUM)

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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
 - Local employers have paid 100% of contributions for teachers, police and fire since state subsidy was repealed in 2011
 - Note: HB 1221 provided one-time state reimbursement of 7.5% for local employer contributions for Teachers/Police/Fire made in FY 2022

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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
 - \$5.69 billion at the close of FY 2022, a funded ratio of 65.6%
 - 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

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Contributions/Funding

UAAL as a % of Employer Pension Rate – FY 2024-25

Member Category	Pension: Normal Cost	Pension: UAAL	UAAL as a % of Total Pension Cost	Medical Subsidy	Total Employer Rate
Emp. – State	2.48%	10.79%	81.3%	0.58%	13.53%
Emp. – P. Sub.	2.48%	10.79%	81.3%	0.26%	13.85%
Teacher	2.71%	15.80%	85.4%	1.13%	19.64%
Police	6.10%	22.58%	78.7%	2.60%	31.28%
Fire	6.28%	21.47%	77.4%	2.60%	30.35%

Member share of normal cost: Employee: 71%; Teacher: 72%; Police: 65%; Fire: 65%

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Summary

- **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 assumed rate of return 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

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Summary

- **NHRS has a constitutional and statutory foundation to protect its financial future**
 - Constitutional protections of Part I, Article 36-a assure that contribution rates are actuarially sound and paid by employers; and, that the pension trust is used solely for the benefit of NHRS members
 - Statutory provisions of 100-A have been amended to address structural issues which undermined the financial security of the system
 - This is a marathon, not a sprint - and there are no shortcuts

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Appendices

Appendix

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*
Maureen Kelliher, *vice chair*
Robert Maloney
Paul Provost

Employer Members

Donald Roy, *N.H. School Boards Assoc.*
Jon Frederick, *N.H. Municipal Association*
Ken Merrifield, *State of N.H.*
Christopher Coates, *N.H. Assoc. of Counties*

Employee Members

Germano Martins, *Employee*
Sue Ellen Hannan, *Teacher*
Joshua Quigley, *Police*
Andrew Martineau, *Fire*

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*
Paul Provost

Public Members

Christine Clinton
Daniel LaPlante
Vacant

Active Participant Member

Michael McMahon

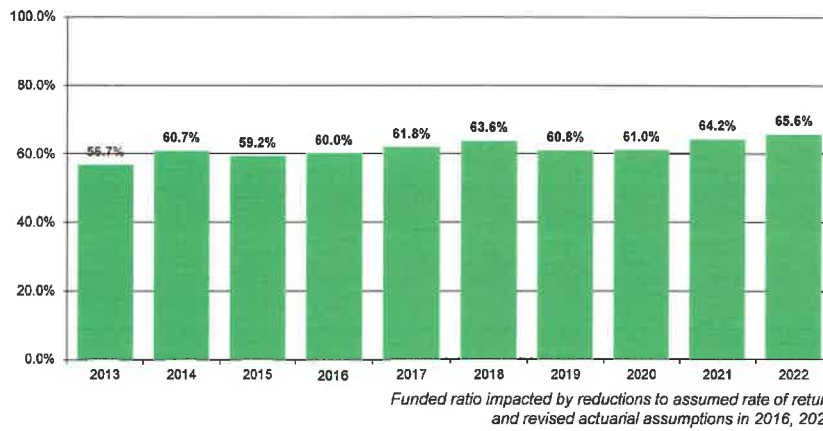
Employer Contribution Rates – FY 2022-23 vs FY 24-25

Member Category	FY 22-23 Employer Rate	FY 24-25 Employer Rate	% Change
Emp. – State	14.53%	13.85%	-4.7%
Emp. – P. Sub.	14.06%	13.53%	-3.8%
Teacher	21.02%	19.64%	-6.6%
Police	33.88%	31.28%	-7.7%
Fire	32.99%	30.35%	-8.0%

Note: The rate decrease in FY 24-25 is primarily the result of strong investment performance over the five-year period ending June 30, 2021.

Appendix Trust Fund Assets

- **Actuarial funded ratio: June 30, 2013 to June 30, 2022**



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Appendix Members and Beneficiaries 2013-2022

- **Active Members**
 - 2022: 48,687
 - 2021: 48,582
 - 2020: 48,479
 - 2019: 48,288
 - 2018: 48,121
 - 2017: 47,886
 - 2016: 48,069
 - 2015: 47,812
 - 2014: 48,307
 - 2013: 48,688
- **Retirees/Beneficiaries**
 - 2022: 42,415
 - 2021: 40,974
 - 2020: 39,612
 - 2019: 38,352
 - 2018: 37,012
 - 2017: 35,694
 - 2016: 32,776
 - 2015: 31,350
 - 2014: 31,054
 - 2013: 29,729

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Appendix
Membership Data at June 30, 2022

- **State vs. Political Subdivision**

	Employees	Teachers	Police	Fire	Total
State	9,824	0	1,007	32	10,992
Political Subs.	14,820	18,217	3,096	1,691	37,487
Total	24,644	18,217	4,103	1,723	48,687

- **Membership by Gender**

	Employees	Teachers	Police	Fire	Total
Female	14,893	14,430	618	59	30,000
Male	9,751	3,787	3,485	1,664	18,687
Total	26,644	18,217	4,103	1,723	48,687

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

- **Service Retirement Age: 65**
- **Service Retirement Formula:**
AFC multiplied by 1/66th, multiplied by
creditable service = annual pension
 $\$50,000 \times 1/66^{\text{th}} = \$758 \times 30 \text{ years} = \$22,727$

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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**

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

Note: Group II members do not participate in Social Security

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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.

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