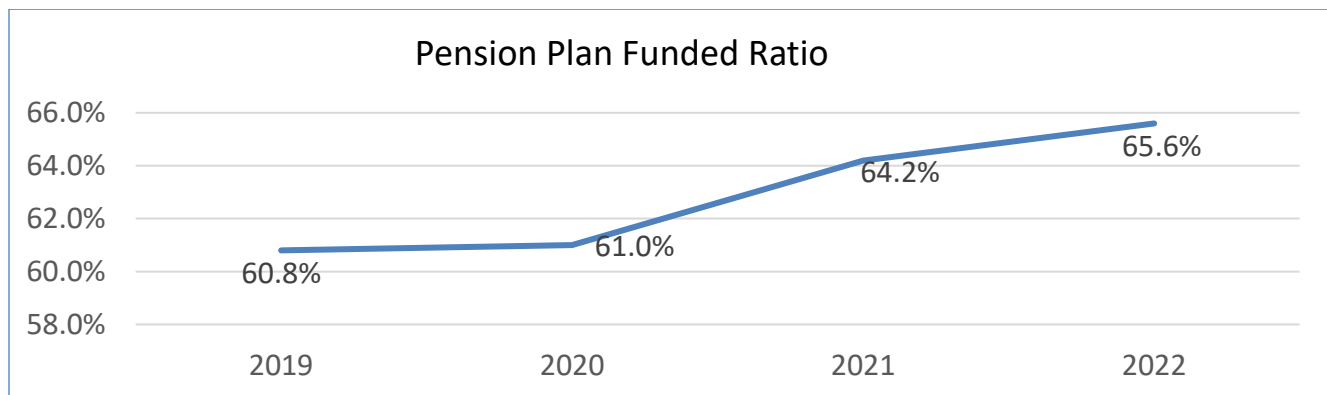


NHRS BUDGET OVERVIEW FY 2024 & 2025

April 20, 2023

NHRS Highlights

- Remain on schedule with the multi-year project to upgrade our core pension application (“PensionGold”) from the 22-year-old version 2 to version 3 (PGV3 project). The project is now 76% completed.
- Implemented statutory changes enacted in 2022 related to member benefits that required significant pension database modifications.
- Certified employer contribution rates for FY 2024 and 2025 in July. Rates decreased between 3.75% and 8% depending on the member group, largely due to strong investment performance over the five-year period ending June 30, 2021.
- The funded ratio of the pension plan was 65.6% in FY 2022, up from 64.2% in FY 2021 and is trending favorably over the past four years.



- Realized a negative 6.1% (-6.1%) return on investments in the fiscal year ended June 30, 2022. Factors such as Russia’s invasion of Ukraine, the ongoing disruption of global supply chains due to COVID, and inflationary pressures not seen in decades, resulted in heightened investor uncertainty and significantly increased market volatility throughout the year. The three-year, five-year, 10-year, and 25-year returns for the periods ended June 30, 2022, were 7.1%, 7.2%, 8.5%, and 6.9%, respectively. All returns are net of fees. Compared to the members in the Callan Public Fund Sponsor – Large Universe (greater than \$1 billion), NHRS performed better than two-thirds of its peers in FY 2022 and was in the top 20% over the past decade.
- FY 2023 YTD return on investments through February is a positive 4.2%; the three-, five-, and 10-year FYTD returns were +8.4%, +6.6%, and +7.8%, respectively.
- Enhanced member and employer education efforts by adding presentations specifically focused on filing a retirement application and submitting final compensation information for recently retired members.
- Issued the June 30, 2022, financial statements with an unmodified (clean) opinion.

Ongoing initiatives to improve efficiency at NHRS

- Maintained and expanded various cyber-security enhancements designed to protect the security of our system and member/retiree personal information; stopped accepting unencrypted email attachments sent to the general information mailbox.
- Successfully met the recruiting and personnel challenges resulting from retirements and turnover; leveraged technology for more efficient recruitment efforts; built out management development program.

Significant challenges/opportunities faced by NHRS

- Continue to review – and adjust as needed – the investment portfolio to meet or exceed the retirement system’s assumed rate of return of 6.75% over the long term (25 to 30 years), while at the same time managing risk, return, and liquidity.
- An actuarial experience study will be conducted in 2024 for the four-year period ending June 30, 2023. This study will further the process of assuring that the funding of the system is in alignment with anticipated costs for providing benefits.

Impact of recent legislation on NHRS

- Twenty-one bills related to NHRS were introduced in the 2023 session. Eight House bills were passed and referred to the Senate. Three additional House bills were added to House Bill 2.
- Passage of any legislation related to benefit eligibility or calculations this year will delay the implementation of our pension database upgrade and add to the project cost.
- The Governor, at NHRS’ request, has included a \$40,000 appropriation in House Bill 2 to provide long-term funding for a closed, non-pension legacy benefit administered by the retirement system for two widows of call firefighters killed in the line of duty.

NHRS budget review

- Until recently, the NHRS statutory administrative budget has been held relatively flat and spending was kept well under the budgeted amounts. The cost impact of a multi-year upgrade of our 22-year-old core pension database application first appeared in actual spending in FY 2019, and in budgeted amounts in FY 2020. Implementation costs associated with this project are expected through FY 2024. The upgrade will improve the application from a stand-alone client server platform (PGV2) to a web-based system with enhanced security and functionality (PGV3).

FY	2022	2021	2020	2019	2018	2017
Operations Budget	\$9.6M	\$9.5M	\$9.3M	\$8.8M	\$8.5M	\$8.3M
Operations Actual	\$8.8M	\$8.0M	\$7.9M	\$7.7M	\$7.5M	\$7.7M
PGV3 Budget	\$2.7M	\$2.8M	\$2.8M	\$0	\$0	\$0
PGV3 Actual	\$1.4M	\$2.1M	\$2.1M	\$1.0M	\$0	\$0
Total NHRS Budget	\$12.3M	\$12.3M	\$12.1M	\$8.8M	\$8.5M	\$8.3M
Total NHRS Actual	\$10.2M	\$10.1M	\$10.0M	\$8.7M	\$7.5M	\$7.7M

STATUTORY ADMINISTRATIVE BUDGET

FY 2023 Through FY 2025

	(A) FY 2023	(B) FY 2024	(B) FY 2024	(C) FY 2025	(C) FY 2025
	<u>Adjusted Authorized Budget</u>	<u>Agency Budget</u>	<u>Governor/ House Budget</u>	<u>Agency Budget</u>	<u>Governor/ House Budget</u>
1 Statutory Budget					
2 Salaries & Benefits:	\$7,604,366	\$7,793,341	\$7,793,341	\$8,312,738	\$8,312,738
3 Information Technology:					
4 Technology-Software & Hardware	883,000	1,118,000	1,118,000	1,168,000	1,168,000
5 All Other Administrative Costs:					
6 Current Expenses	201,610	220,550	220,550	222,075	222,075
7 Rents & Leases	465,000	461,000	461,000	461,000	461,000
8 Utilities	90,000	100,000	100,000	105,000	105,000
9 Building Maintenance	115,000	110,000	110,000	110,000	110,000
10 Equipment	24,700	28,950	28,950	28,950	28,950
11 Consultants (IMEs)	234,000	255,000	255,000	250,000	250,000
12 Retiree Health Care	177,900	149,400	147,400	189,400	165,200
13 Education & Training	73,400	84,900	84,900	85,500	85,500
14 Other	242,966	300,701	300,701	305,615	305,615
15 Subtotal All Other Adm Costs	<u>\$1,624,576</u>	<u>\$1,710,501</u>	<u>\$1,708,501</u>	<u>\$1,757,540</u>	<u>\$1,733,340</u>
16 Subtotal Before PGV3 Project	<u>\$10,111,942</u>	<u>\$10,621,842</u>	<u>\$10,619,842</u>	<u>\$11,238,278</u>	<u>\$11,214,078</u>
	<i>% Change</i>	5.1%	5.1%	5.8%	5.8%
17 PG V3 Project:					
18 Project Costs	2,046,280	2,383,600	2,383,600	2,418,200	2,418,200
19 Subtotal PGV3 Project	<u>\$2,046,280</u>	<u>\$2,383,600</u>	<u>\$2,383,600</u>	<u>\$2,418,200</u>	<u>\$2,418,200</u>
20 Total	\$12,158,222	\$13,005,442	\$13,003,442	\$13,656,478	\$13,632,278
	<i>% Change</i>	7.1%	7.0%	5.0%	4.8%