



**NEW HAMPSHIRE RETIREMENT SYSTEM
BUDGET REMARKS
November 29, 2022**

Good afternoon, my name is Jan Goodwin, and I am the Executive Director of the NH Retirement System. Here with me today is Marie Mullen, our Director of Finance, and Marty Karlon, our Director of Communications and Legislative Affairs.

Our Mission is **"To provide secure retirement benefits and superior service."**

For those of you who have seen NHRS' presentation before, the message is the same – while we still have some challenges in front of us, we are pleased with the positive progress we have made and the significant operational improvements which have been implemented over the past decade. The NHRS Board and staff are committed to promoting the sustainability and stability of the retirement system.

NHRS has over 48,000 members and 42,000 retirees and beneficiaries. It is managed by thirteen trustees and investment oversight is provided by an independent investment committee consisting of six members. As fiduciaries, they are obligated to act solely in the interest of the system's members and beneficiaries. With the exception of the State Treasurer, who serves ex officio, Trustees and Investment Committee members are appointed through the Governor and Council and serve three-year terms.

Consistent with our prior presentations, we have two handouts:

- An overview with highlights, initiatives, and strategic challenges and
- A copy of our strategic planning document, which will speak to our goals

The statutory administrative budget encompasses all internal, non-investment related administration costs, including projected IT costs at full value. Pursuant to statute, the Retirement System's Board of Trustees reviews and approves the statutory administrative budget biennially. Our statutory administrative operating budget for **FY 23 is \$12.1 million** and our proposed budgets for the next two years are slightly higher at **\$13.0 million in FY24 and \$13.7 million in FY25**, based on fully staffing all authorized positions and complete implementation of the pension system software upgrade.

As you all well know, the NH Retirement System is not an executive branch agency but is a statutorily created pension trust. Although its expenses flow through the State, those costs are reimbursed from the retirement trust, which is in turn funded by contributions from employers and members, and investment returns. The budget which is before you today has been fully vetted and adopted by our Board of Trustees.

Before I go into greater detail on the operations of the retirement system, I would like to share these key facts about NHRS:

- **NHRS provides a modest pension benefit.**
 - The average annual pension benefit is just over \$21,800.
 - Nearly two-thirds of our 42,000 pension recipients receive less than \$25,000 per year.
 - NHRS benefits are funded by member contributions, employer contributions, and investment returns. NHRS investments have achieved an average annual net return of 8.5% over the last 10 years.

- **NHRS benefits help support the New Hampshire economy.**
 - In the last fiscal year, NHRS paid out more than \$900 million in pensions and \$45 million in Medical Subsidy benefits.
 - Just under 80 percent of retirees live in N.H. – and spend their money here.
 - According to research released last year by the National Institute on Retirement Security (NIRS), retiree expenditures stemming from state and local pension plan benefits in FY 2018 supported 8,495 jobs in the state.

- **There is a plan in place to pay down the NHRS unfunded liability.**
 - As everyone knows, NHRS has a significant Unfunded Actuarial Accrued Liability (“UAAL”). There are 16 years remaining on the payoff of the original unfunded liability which existed in 2007. Subsequent gains and losses occurring after June 30, 2017, are being amortized over periods of no more than 20 years. On average, roughly 80% of the employer contribution rate for state employees goes toward paying off the UAAL.
 - Employer contribution rates for the four membership classifications – Employee, Teacher, Police, and Fire – will decrease in FY 24-25. The rate decrease is primarily the result of strong investment performance over the five-year period ending June 30, 2021.

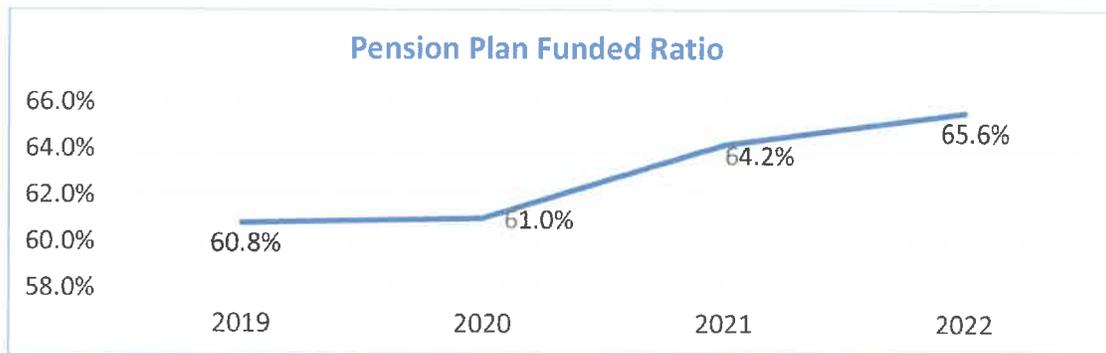
- **Trustees continue to strengthen the plan by adopting revised actuarial assumptions recommended by the system's actuaries.**
- Actuarial assumptions were last revised following a recent experience study for the period 2016 – 2019, including a reduction in the assumed rate of return from 7.25% to 6.75%.
- Because of its strong constitutional and statutory foundation, NHRS is on the path to full funding. The retirement system is making good progress on paying down its unfunded liability. A slow, steady decrease in the liability is projected in the coming decades, with a corresponding increase in the funded ratio, which increased to 65.6% in FY 2022.

I'll take a couple of minutes to review the Highlights document and then talk about our goals and objectives.

NHRS BUDGET OVERVIEW FY 2024 & 2025
November 29, 2022

NHRS Highlights

- Remained 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 67% 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 of strong investment performance over the five-year period ending June 30, 2021.
- The funded ratio on 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.
- 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.
- Published updated Statutory Interpretive Memoranda relating to participation, earnable compensation, and related benefit issues.
- Issued the June 30, 2021, financial statements, and the GASB 68 and 75 reports with unmodified (clean) opinions.
- Continued to maintain administrative and investment expenses at favorable levels as compared to peer pension plans.

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, while at the same time managing risk, return, and liquidity.
- An actuarial experience study will be conducted 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

- Seven bills related to RSA 100-A were enacted by the New Hampshire Legislature during the 2022 session and signed into law by the Governor. The statutory changes to benefits in 2022 were the most sweeping since 2011.

NHRS agency phase 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

NEW HAMPSHIRE RETIREMENT SYSTEM BUDGET REVIEW STATUTORY ADMINISTRATIVE BUDGET FY 2023 Through FY 2025

	(A) FY 2023 BUDGET	(B) FY 2024 PROPOSED	(C) FY 2025 PROPOSED
1 Statutory Budget			
2 Salaries & Benefits:	\$7,604,366	\$7,793,341	\$8,312,738
3 Information Technology:			
4 Technology-Software & Hardware	883,000	1,118,000	1,168,000
5 All Other Administrative Costs:			
6 Current Expenses	201,610	220,550	222,075
7 Rents & Leases	465,000	461,000	461,000
8 Utilities	90,000	100,000	105,000
9 Building Maintenance	115,000	110,000	110,000
10 Equipment	24,700	28,950	28,950
11 Consultants (IMEs)	234,000	255,000	250,000
12 Retiree Health Care	168,200	149,400	189,400
13 Education & Training	73,400	84,900	85,500
14 Other	242,966	300,701	305,615
15 Subtotal All Other Adm Costs	\$1,614,876	\$1,710,501	\$1,757,540
16 Subtotal Before PGV3 Project	\$10,102,242	\$10,621,842	\$11,238,278
	<i>% Change</i>	5.1%	5.8%
17 PG V3 Project:			
18 Project Costs	2,046,280	2,383,600	2,418,200
19 Subtotal PGV3 Project	\$2,046,280	\$2,383,600	\$2,418,200
20 Total	\$12,148,522	\$13,005,442	\$13,656,478
	<i>% Change</i>	7.1%	5.0%



New Hampshire Retirement System
54 Regional Drive, Concord, NH 03301
Phone: (603) 410-3500 - Fax: (603) 410-3501
Website: www.nhrs.org - Email: info@nhrs.org

Strategic Planning

Background

The New Hampshire Retirement System was created in 1967 as a contributory defined benefit plan. The plan provides lifetime pension benefits, disability benefits, and pre- and post-retirement death benefits for public employees, teachers, police officers, and firefighters.

For the fiscal year ending June 30, 2022, NHRS had approximately 48,500 active members and 42,000 retirees and beneficiaries; it paid out approximately \$913 million in pension benefits and nearly \$45 million in Medical Subsidy payments. Nearly 80% of our retirees continue to live in-state and their benefits have a positive impact on the state's economy.

Under RSA 100-A, NHRS has a fiduciary obligation to act for the exclusive benefit of its members and beneficiaries. To carry out that obligation, its operations are governed by a 13-member Board of Trustees. The investment of the trust fund's nearly \$10.4 billion in assets is the responsibility of an Independent Investment Committee, which consists of six members. Day-to-day retirement system operations are delegated by the Board to the Executive Director and administered by a staff of approximately 70.

Overview

Pursuant to Board Policy, NHRS adopts a rolling three-year strategic plan on an annual basis. The plan is developed during the third and fourth fiscal quarters and typically adopted yearly at the April or May meeting of the Board of Trustees. As a part of that process, both the Board and the staff engages in a Preserve/Achieve/Avoid exercise to identify areas requiring action or attention. The strategic plan focuses on key priorities to be achieved over the next 12 to 36 months.

However, it is only one component of the comprehensive management process in place to assure that NHRS meets its obligations to its members and beneficiaries. At the staff level, meetings are held on a quarterly basis to update all employees on major issues, initiatives, and progress toward achieving Action Plans. Operationally, our management is committed to a culture of communication and teamwork.

In Conclusion

NHRS has a very important role in the economic well-being of New Hampshire's public employees, teachers, police officers, and firefighters. Everyone at NHRS have a strong appreciation of that responsibility and we are committed to the professional management and administration of the pension trust and the retirement benefits for all of our members, retirees, and beneficiaries.

NHRS Three-year Strategic Plan Priorities

July 2022 – June 2025

2022-2023 (FY 23)

- Review and adjust the three-year strategic plan as appropriate.
- Complete project plan milestones for LRS Pension Gold (PGV3) project.
- Implement COVID Transition plan to open NHRS to members and beneficiaries and return staff to the office.
- Implement a comprehensive communication and education program for employers with respect to PGV3 implementation.
- Review staffing needs/responsibilities for post-PGV3 implementation.
- Update succession plan at all levels, with particular focus on senior positions.
- Build on the outstanding communication with all internal and external stakeholders, including the legislature.
- Complete implementation of data security assessment recommendations and continue to enhance IT security.
- Continue to enhance member interface to include younger employees/members in the NHRS system.
- Develop and release member surveys assessing knowledge and comfort level with NHRS benefits and preferences for additional education efforts.
- Migrate more IT/office services into the Cloud.

2023-2024 (FY 24)

- Review and adjust the three-year strategic plan as appropriate.
- Continue implementation of PGV3 upgrade. Parallel processing currently scheduled to start in October 2023 for two months. Warranty period commences at end of parallel processing.
- Complete implementation of (non-PGV3 reliant) data security enhancement recommendations.

2024-2025 (FY25)

- Continue implementation of PGV3 upgrade as per project plan.
- Evaluate progress on all objectives and initiatives over prior 24 months to determine what has been achieved and what still needs to be addressed.

NOTES

- Plan does not address day-to-day issues such as managing implications of legislative action or litigation outcomes, which may be material, but are entirely unpredictable. Also, see KPMs for performance measures.
- FY 24 and FY 25 will be reviewed and adjusted depending on results of FY 23.

Approved by the NHRS Board of Trustees, May 10, 2022