



# NHRS

New Hampshire Retirement System

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# Pension Reporting

**New Hampshire Retirement System**

*May 2015*



# NHRS

New Hampshire Retirement System

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- **NHRS is a contributory, defined benefit plan established in 1967**
- **Once members attain eligibility, they receive a guaranteed lifetime pension funded through employee and employer contributions and the growth of the trust fund assets**
- **Investment returns have historically provided the bulk of funding for pension benefits**
- **Member contributions are set by statute; employer contributions are actuarially determined on a biennial basis**



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## NHRS Overview

- **NH Legislature: Plan sponsor**
  - **RSA 100-A serves as plan document**
- **NHRS staff implements RSA 100-A**
- **NH Constitution Art. 36-a protects fund 'for the exclusive purpose' of providing benefits**
- **Subject to Internal Revenue Code provisions**
- **NHRS Board of Trustees and Independent Investment Committee members are fiduciaries**



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## NHRS Overview

- **Participating employers: 475+**
- **Membership at 6/30/14:**

|                               | Employees | Teachers | Police | Fire  | Total   |
|-------------------------------|-----------|----------|--------|-------|---------|
| <b>Active Members</b>         | 24,545    | 17,986   | 4,166  | 1,610 | 48,307* |
| <b>Retirees/Beneficiaries</b> | 15,314    | 10,965   | 3,282  | 1,493 | 31,054  |

- **NHRS paid out more than \$650 million in benefits in FY 2014 to 31,000 retirees and beneficiaries**

*\* Political Subdivision members make up more than 75% of NHRS members*



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## NHRS Overview

### ■ State vs. Political Subdivision

|                 | Employees | Teachers | Police | Fire  | Total  |
|-----------------|-----------|----------|--------|-------|--------|
| State           | 9,966     | 0        | 1,061  | 68    | 11,095 |
| Political Subs. | 14,579    | 17,986   | 3,105  | 1,542 | 37,212 |
| Total           | 24,545    | 17,986   | 4,166  | 1,610 | 48,307 |

### ■ Membership by gender

|        | Employees | Teachers | Police | Fire  | Total  |
|--------|-----------|----------|--------|-------|--------|
| Female | 15,058    | 14,064   | 546    | 46    | 29,714 |
| Male   | 9,487     | 3,922    | 3,620  | 1,564 | 18,593 |
| Total  | 24,545    | 17,986   | 4,166  | 1,610 | 48,307 |

At 6/30/14



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## NHRS Overview

- **Active members**
  - **Average age: 47.1**
  - **Average service: 12.1 years**
  - **Average salary: \$51,916**
- **Retirees**
  - **Average age: 69.5**
  - **Average benefit: \$19,407**

*At 6/30/14*

- **Group I**
  - **Employee: \$12,932**
  - **Teacher: \$21,401**
- **Group II**
  - **Police: \$35,154\***
  - **Fire: \$36,562\***
- **All retirees**
  - **Aggregate: \$19,407**

*At 6/30/14*

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





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## NHRS Overview

- Average annual benefit for new service retirees**

|                  | FY 2010  | FY 2011  | FY 2012  | FY 2013  | FY 2014  |
|------------------|----------|----------|----------|----------|----------|
| <b>Group I</b>   |          |          |          |          |          |
| Employee         | \$15,645 | \$15,524 | \$13,603 | \$13,304 | \$15,928 |
| Teacher          | \$27,474 | \$23,830 | \$25,882 | \$24,316 | \$26,931 |
| <b>Group II*</b> |          |          |          |          |          |
| Police           | \$49,665 | \$51,745 | \$52,910 | \$50,458 | \$46,217 |
| Fire             | \$59,089 | \$55,600 | \$58,126 | \$57,241 | \$50,567 |

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



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## NHRS Overview

- **Annual benefit under \$10k: 31%**
- **Annual benefit under \$25k: 68%**
- **Annual benefit under \$50k: 95%**
- **Annual benefit under \$75k: 99%**
- **Annual benefit greater than \$75k: 1.0%**

*At 12/31/14*

- **Trust fund was approximately \$7.41 billion as of 6/30/14**
- **Unfunded Actuarial Accrued Liability (UAAL) was \$4.3 billion at the close of FY 2014, a funded ratio of 60.7%**
  - **UAAL is the result of artificially low employer contributions coupled with transfer of ‘excess’ investment earnings to Special Account over an extended period that was exacerbated by market downturn of past decade**

- **Method is in place to amortize UAAL over a closed, 25-year period through employer contribution rates**
- **UAAL does not impact the short-term fiscal stability of NHRS**
- **A Constitutional obligation (Article 36-a)**



- **GASB 67/68 timeline**

- **10-year GASB pronouncement update cycle**
- **GASB Board approved final statements amending pension accounting and financial reporting requirements in June 2012**
- **GASB Statement 67 replaces GASB Statement 25 (*Financial Reporting for Pension Plans*) effective for fiscal years commencing after June 15, 2013**
- **GASB Statement 68 replaces GASB Statement 27 (*Accounting for Pensions by Employers*) effective for fiscal years commencing after June 15, 2014**



- **GASB 67/68 highlights**
  - **GASB Rationale: Consistent, transparent, comparable financial reporting**
  - **Funding accounting is divorced from financial reporting accounting**
  - **For cost-sharing plans such as NHRS, the GASB pension liability will be allocated to participating employers**
  - **Financial statements of employers will reflect a portion of liability and pension expense**
  - **Putting liability on the balance sheet will add a large and volatile element to an employer's net financial position on its basic financial statements**



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## **GASB Overview**

- **GASB 67/68 highlights**
  - **Changes do not alter the statutory funding methodology**
  - **Timing and scope of new reporting will require greater coordination between plan and employers, as well as between auditor and actuary**
  - **Does not include OPEB (Medical Subsidy)**



- **Total Pension Liability (TPL) – What's owed**
  - **Reports the total employer's financial responsibility for future lifetime pension benefits as of a given measurement date**
  - **Must use Entry Age Normal cost method (same as NHRS' statutory actuarial method)**
  - **Discount rate: Either the Plan assumed rate of return or a blended rate using the assumed rate of return and the 20-year municipal bond rate**





- **Fiduciary Net Position (FNP) – What's owned**
  - **Replaces the current 'Net Assets Held in Trust' for pensions**
  - **Includes a new concept: Deferred inflow and outflow components**
  - **FNP is based on market value of assets, which may lead to greater year-to-year volatility**

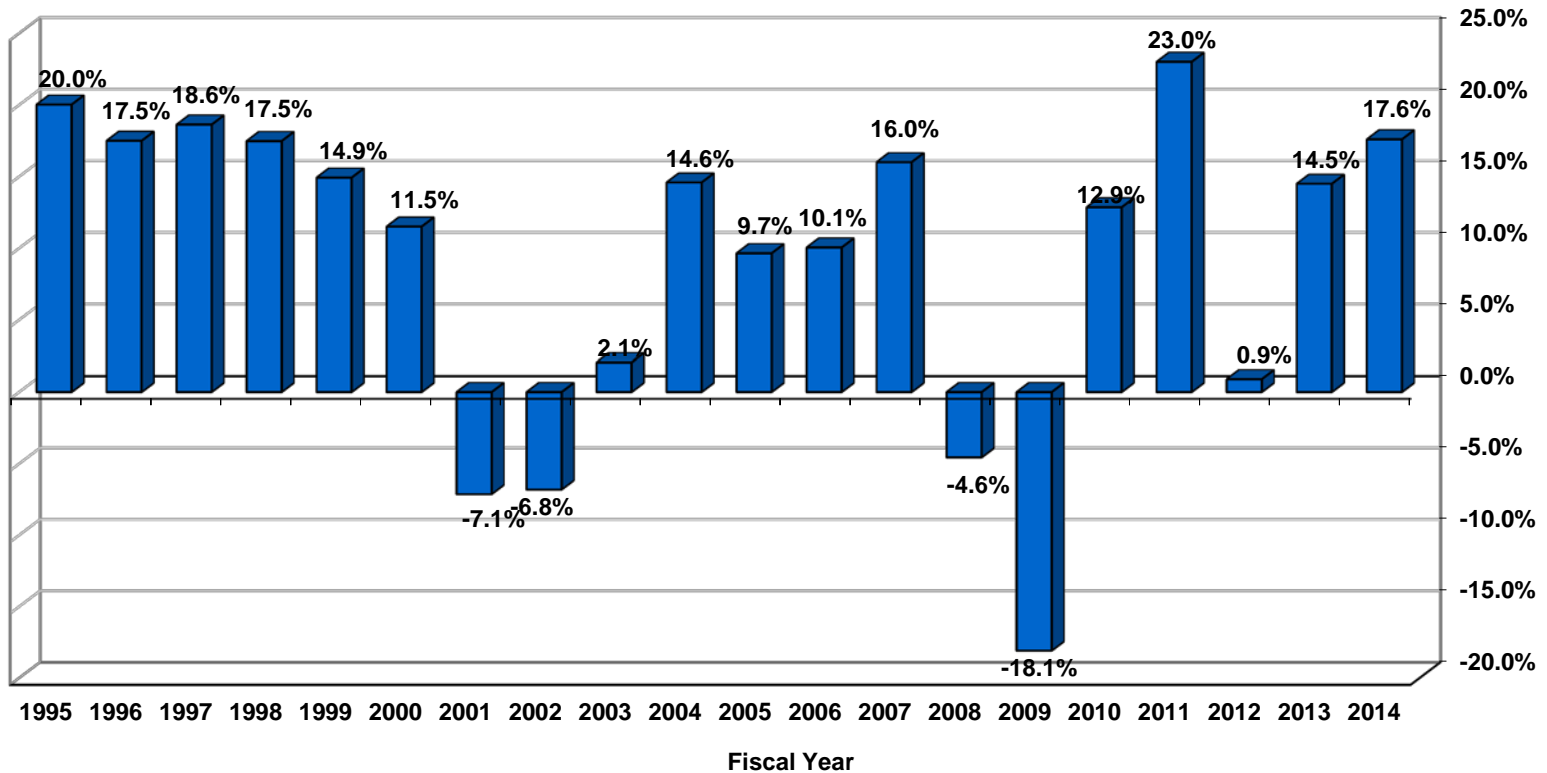


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## TPL, FNP & NPL

### Twenty-Year History of NHRS Total Fund Returns



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



- **Net Pension Liability (NPL) – Unfunded**
  - **TPL less FNP**
    - (i.e. total reported future obligation minus current market value of assets net of liabilities)
  - **Similar to, but not the same as, unfunded actuarial accrued liability (UAAL)**
  - **Unlike most liabilities, NPL is not immediately payable**



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## TPL, FNP & NPL

### Computation Basis

|                         | <b>GASB</b>       | <b>Actuarial Funding</b> |
|-------------------------|-------------------|--------------------------|
| Total Pension Liability | \$ 11,144,213,773 | \$ 11,045,173,866        |
| Fiduciary Net Position  | \$ 7,390,628,021  | \$ 6,700,553,435         |
| Net Pension Liability   | \$ 3,753,585,752  | \$ 4,344,620,431         |
| Percent Funded          | 66.3%             | 60.7%                    |

*GASB/Actuarial Comparison at June 30, 2014*

## Employer Proportionate Share

- **Every employer must report its proportionate share of the NPL on its balance sheet**
- **NHRS will annually determine proportionate shares based on employer contributions to the pension plan**



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## Employer Proportionate Share

- **Which contributions?**
  - **Employer definition: Total employer rate, including Medical Subsidy portion**
  - **NHRS' definition: Pension portion of employer rate**



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## Employer Pension Expense

- **Reported on employer income statement**
- **Old: The amount of contributions paid to NHRS**
- **New: The change in NPL from year to year, as well as deferred inflows and outflows for:**
  - **Actuarial gains and losses (i.e. the difference between actual and expected economic and member demographic factors)**
  - **Changes in actuarial assumptions**
  - **Difference between projected and actual investment earnings**
  - **The effect of the change in employer proportion from one measurement date to the next**
  - **Difference between actual employer contributions and the proportionate share value for the measurement period**
- **Different amortization schedules for different components**



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## Required Disclosures

- **Note Disclosure**
  - **Plan description**
  - **Information about employer's Proportionate Share of the collective Net Pension Liability**
  - **Assumptions and other inputs**
  - **Fiduciary net position**
- **Required Supplementary Information**
  - **10-year schedules**
  - **Funding progress**
  - **Employer contributions**





## GASB Implementation

### ■ GASB 67 timeline

- June 30, 2014: Effective date of NHRS implementation of GASB 67
  - Financial statement changes: Net assets to net position
  - Footnote and RSI additions: Disclosure of TPL, FNP, and NPL; build 10-year comparison schedules

### ■ GASB 68 timeline

- Employers with Fiscal Year end of June 30, 2015: Use measurement as of 6/30/14
- Employers with Fiscal Year end of Dec. 31, 2015: Use measurement as of 6/30/15

***Separate report with audited proportionate shares of NPL and pension expense is expected to be available to employers in June 2015***



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## GASB Implementation

- **GASB 68 audited report:**
  - **Plan actuary's role**
  - **Plan auditor's role**
  - **Allocations basis:**
    - **FY 14 employer pension contributions**
  - **Reports due:**
    - **June 2015 and January 2016**



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## What NHRS Will Provide

- **Calculation of aggregate NPL**
- **Calculation of aggregate pension expense**
- **Determination of proportionate shares**
- **Aggregate amortization schedules for deferred inflows and outflows**
- **Pro-forma suggested language for required disclosures**



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## What NHRS will provide

### Schedule of Employer Allocations

| Employer    | 20XX<br>Actual<br>Employer<br>Contributions | Employer<br>Allocation<br>Percentage |
|-------------|---|--------------------------------------|
| Employer 1  | \$ 2,143,842                                | 36.376%                              |
| Employer 2  | 268,425                                     | 4.554                                |
| Employer 3  | 322,142                                     | 5.466                                |
| Employer 4  | 483,255                                     | 8.199                                |
| Employer 5  | 633,125                                     | 10.742                               |
| Employer 6  | 144,288                                     | 2.448                                |
| Employer 7  | 95,365                                      | 1.618                                |
| Employer 8  | 94,238                                      | 1.599                                |
| Employer 9  | 795,365                                     | 13.495                               |
| Employer 10 | 267,468                                     | 4.538                                |
| Employer 11 | 403,527                                     | 6.847                                |
| Employer 12 | 165,886                                     | 2.815                                |
| Employer 13 | 68,454                                      | 1.161                                |
| Employer 14 | 6,240                                       | 0.106                                |
| Employer 15 | 2,144                                       | 0.036                                |
| Total       | \$ <u>5,893,764</u>                         | <u>100.000%</u>                      |



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## Audit Issues

- **Plan auditor's approach**
  - **GASB 68 reports**
  - **Census data audits**
- **Employer auditors role**



### ■ AICPA guidance: Census

- Risk-based approach by plan auditor to select employers to test
  - Individually important employers (e.g. > 20% of plan) tested annually
  - Plan auditor performs risk assessment on remaining employers using tiered approach
    - Employers between 5% and 20% tested to approximate a 5-year cycle
    - Employers less than 5% tested to approximate a 10-year cycle
    - Small employers who represent less than 2% of plan will not have a census audit (about 175 in NH)



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## NHRS Messaging

- **Dedicated web page with weekly updates**
- **Targeted messaging regarding what GASB 68 really means (and what it doesn't)**
  - **Five-minute narrated PowerPoint overview**
    - <https://www.youtube.com/watch?v=leIS8y682Ss>
  - **“Now You Know” written summary**
- **Ongoing resource/support for employers**



### ■ Bottom Line

- New reporting deals with financial accounting, not funding
- GASB has made NHRS your financial reporting partner
- No direct impact on contributions or property taxes
- Having two different numbers out there – one for funding and one for accounting – will present a communications challenge





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## **GASB Resources**

**Online: [www.nhrs.org/employers/gasb](http://www.nhrs.org/employers/gasb)**

**Contact: Jack Dianis, NHRS**

**603-410-3656**

**[GASB@nhrs.org](mailto:GASB@nhrs.org)**



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