

NHRS

New Hampshire Retirement System

January 20, 2010

Ms. Anne-Marie Irwin, Chair
New Hampshire House of Representatives
Executive Departments and Administration Committee
Legislative Office Building, Room 306
Concord, NH 03301

Re: HB1682 – An Act relative to the methodology for determining
retirement system contribution rates

Dear Representative Irwin:

At its January 12, 2010 meeting, the New Hampshire Retirement System (NHRS) Board of Trustees voted unanimously to oppose the passage of HB1682. Their opposition is buttressed by the State Constitutional requirement that employer contributions (i.e., rates) be based on sound actuarial practice. The relevant part of the New Hampshire Constitution is produced below for your reference.

[Art.] 36-a [Use of Retirement Funds.] The employer contributions certified as payable to the New Hampshire retirement system or any successor system to fund the system's liabilities, ***as shall be determined by sound actuarial valuation and practice (emphasis added)***, independent of the executive office, shall be appropriated each fiscal year to the same extent as is certified.....

Further to this Constitutional mandate, the attached letter from Gabriel Roeder Smith, the independent actuaries retained by the NHRS states in strong and clear language that the method proposed in this legislation is ***not*** in compliance with standard practice and would not be in the best interest of the plan.

Our actuaries were not able to attend today's hearing, but I will be happy to coordinate their availability for any further hearings if it would be helpful. As always, NHRS staff is available for additional information and analysis.

Sincerely,

Richard W. Ingram
Executive Director

attachment



HB 1682

October 21, 2009

Mr. William A. Spead
Regulatory Compliance Officer
New Hampshire Retirement System
54 Regional Drive
Concord, New Hampshire 03301

Re: LSR 10-2570.0 Use of 50-Year Asset Smoothing Method

Dear Bill:

LSR 10-2570.0 states:

2 *RSA 100-A:16 to read as follows:*
3 *All of the assets of the retirement system shall be credited, according to the purpose for which*
4 *they are held, between 2 funds, namely, the member annuity savings fund and the state annuity*
5 *accumulation fund. Each of the funds shall be subdivided on account of the various member*
6 *classifications. In making the determinations required under this section for financing the*
7 *retirement system, the board of trustees shall use the entry age normal funding methodology. The*
8 *board of trustees shall direct the systems actuary to prepare biennial valuations of the systems*
9 *assets and liabilities commencing with the valuation prepared as of June 30, 2007. **In preparing***
10 ***the biennial valuation, the actuary shall utilize an average of the earnings and assets of***
11 ***the system over a 50-year period.** Such biennial valuation shall be the basis for determining the*
12 *annual contribution requirements of the system until the next following biennial valuation.*
13 *2 Effective Date. This act shall take effect 60 days after its passage*

You have asked for our comments on this legislation. Those comments follow:

- A 50-year asset smoothing method is not in compliance with the actuarial standard of practice;
- If a method or assumption is required by law, but would not otherwise be acceptable under the standards, an actuary must comply with the law. However, under the standards of practice, the actuary must also clearly indicate that they are using a method or assumption that would not otherwise be acceptable under the standards (i.e., they must issue a qualified report);

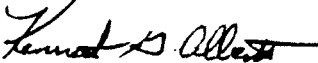
- GASB Statement No. 25 establishes certain parameters that the actuary must follow in order to develop the Annual Required Contribution (ARC) that must be reported in the plan's CAFR. Traditionally in New Hampshire, this amount has been the same as the rates the actuary computes for employer contributions. However if this bill were to become law, these amount would no longer be the same because the 50-year asset smoothing would not satisfy the GASB parameters. This could add a great deal of confusion as to why New Hampshire is not contributing the ARC as determined under GASB accounting rules;
- In a year with such a significant downturn in the market (New Hampshire experienced a negative 18% rate of return), such a change could prevent a much needed contribution increase and could jeopardize the health of the system;
- The language in the LSR is very vague. It could be interpreted to require recalculating the June 30, 2007 valuation. It is also silent on whether or not asset corridors are allowed in the method (currently, the method determines a preliminary funding value of assets based on a 5-year smoothing, but then limits the funding value to no less than 80% of the market and no greater than 120% of the market);
- This approach is similar to the approached used by the Open Aggregate funding method which is believed to have had a major contribution to the system's current poor funded status;
- If the 50-year smoothing approach was adopted without a corridor as of June 30, 2010 (assuming the gains and losses already incurred by that point were not re-amortized), and the system experienced another strong downturn with a negative 15% return in 2011, the funding value would be in excess of 150% of the market value. Such a relationship could subject NHRS and the legislature to criticism that they are using asset figures that bear very little relationship to reality. Under the current method, the funding value can never be more than 120% of market value or less than 80% of market value and is therefore always closely related to the market value on the measurement date.

In summary, we do not believe that this proposed legislation is in the best interest of the plan and strongly recommend that it not be adopted.

The actuaries submitting this statement are Members of the American Academy of Actuaries (MAAA) as indicated, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions, please do not hesitate to call.

Sincerely,


Kenneth G. Alberts


David T. Kausch, FSA, EA, MAAA

KGA:mrb

cc: Mr. Dick Ingram
Mr. Brian B. Murphy, GRS
Mr. David T. Kausch, GRS