STATE OF NEW HAMPSHIRE

ANNUAL REPORT AND INFORMATION STATEMENT SUPPLEMENT

DATED MARCH 27, 2014

Annual Report. *This Annual Report (the "Annual Report") has been prepared in connection with the State's continuing disclosure obligations under SEC Rule 15c2-12 with respect to its general obligation bonds. In addition to the Supplement below, this Annual Report includes and incorporates by reference the State's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2013 (the "2013 CAFR") and the State's most recent Information Statement dated December 5, 2013 (the "Information Statement"). The 2013 CAFR has been previously filed with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) service on December 31, 2013. The Information Statement has been previously filed with EMMA on December 5, 2013 as Part II of the State's Official Statement for its General Obligation Capital Improvement Bonds, $59,050,000 2013 Series B and $19,965,000 2013 Series C (Federally Taxable) (the "2013 Official Statement"). The 2013 Official Statement is also available on the New Hampshire Treasury Department website at http://www.nh.gov/treasury/Divisions/DM/goOSDocs.htm.*

Information Statement Supplement. *The following information is provided by the State in connection with the filing of the Annual Report to supplement the information contained in the Information Statement. This Information Statement Supplement (this "Supplement") only sets forth additional information concerning the matters described below as of the date of this Supplement and is subject to change without notice. Capitalized terms not otherwise defined herein are used as defined in the Information Statement.*

RECENT DEVELOPMENTS

Changes in State Officers

State Treasurer Catherine Provencher has submitted her resignation effective March 28, 2014 to take the position of Vice Chancellor of Finance with the University System of New Hampshire. On March 12, 2014, pursuant to RSA 6:20, Governor Margaret Wood Hassan, with the advice of the Executive Council, nominated Deputy Treasurer William F. Dwyer as Commissioner of Treasury until an election is held by a joint session of the Legislature, likely in December 2014. Mr. Dwyer was confirmed by the Governor and Executive Council on March 26, 2014.

On March 11, 2014, Joseph D. Kenney was elected as Executive Councilor from District 1 to fill the seat of Raymond Burton, who passed away on November 12, 2013. Mr. Kenney was sworn into office on March 26, 2014.

Fiscal Year 2013

As of the date of the Information Statement the financial information concerning the State's fiscal year ended June 30, 2013 was unaudited and subject to change. Such financial information (except the information related to the Judicial Plan beginning on page 77 of the Information Statement) has since been audited and no changes have been made to the information presented except as set forth below:

- Under STATE FINANCES – Results of Operations *Fiscal Year 2013* pages 27 and 28: The unassigned general fund balance, comprising Revenue Stabilization (Rainy Day Fund) amount of $9.3 million and other undesignated fund balance of $72.2 million, ended the year at $81.5 million. The undesignated fund balance was $15.3 million higher than the amount projected in the fiscal years 2014-2015 budget adopted in June 2013 and $3.5 million lower than presented in the 2013 unaudited financial statements. As a result, Total Equity on page 31 is also reduced by $3.5 million from $85 million to $81.5 million. The audited Medicaid Enhancement Revenues, decreased surplus by $7.2 million, while the audited Medicaid accrual increased surplus by $3.7 million, for a net decrease of $3.5 million as described below:

- Net Medicaid Enhancement Revenues for the general fund presented on pages 18, 29 and 36 as $76.3 million, when audited, resulted in a total of $69.1 million, a reduction of $7.2 million. This reduction also changes the total unrestricted revenue presented on pages 27, 29, 31, 36 and 39 from $2,282.8 million to $2,275.6 million.

- GAAP adjustments presented on pages 28, 31 and 39 as $4.4 million, when audited, resulted in total GAAP adjustments of $8.1 million, an increase of $3.7 million. In its unaudited financial statements the State had overstated the accrual for payables on Medicaid benefits.

Accordingly, all references in the Information Statement to financial information for fiscal year 2013 (except the information related to the Judicial Plan beginning on page 77 of the Information Statement) as being unaudited and/or preliminary and subject to change are hereby deleted and such information should be treated as audited information.

STATE FINANCES

State Revenues

Medicaid Enhancement Tax (MET) Revenues

The second paragraph on page 19 is replaced with the following:

Fiscal year 2014 MET payments from hospitals were due on October 15, 2013, but no interest or penalties are assessed if the tax is received by the State on or before October 31, 2013. Through March 1 2014, the State has received $182 million in MET payments from hospital taxpayers, as compared to budgeted receipts of $190.3 million. A final MET return is due to be filed on July 10, 2014. If the required return shows an additional amount of tax to be due, such additional amount is due and payable at the time the return is due. As shown above, fiscal year 2013 MET revenue underperformed and there continues to be uncertainty for fiscal year 2014 as a result of litigation with the hospitals that pay the tax. As of March 1, 2014, nearly all of the hospitals filed protective claims for a full refund of the MET payments for the tax period ending June 30, 2014 on the basis that the MET is unconstitutional. The total amount of these refund requests is $165.8 million. See LITIGATION.

The sixth full paragraph on page 21 is replaced with the following:

Fuel Tax. On March 20, 2014, the Senate passed Senate Bill 367, effectively increasing the fuel tax by 4.2 cents per gallon. The bill requires the revenue from the increase to be used to pay debt service on general obligation bonds authorized to be issued to continue expansion of Interstate 93 and for road and bridge rehabilitation statewide. The bill now moves to the House for its consideration.

Results of Operations

Fiscal Year 2014 (unaudited through February)

Unrestricted revenue for the General and Education Trust Funds received during the first eight months of fiscal 2014 totaled $1,056.8 million, which was above plan by $18.8 million, or 1.8%, and above the prior year by $13.5 million, or 1.3%. Some of the stronger revenue categories contributing to these favorable results include the following taxes:

- Business Taxes - $7.1 million (2.8%) above plan and $2.2 million (0.8%) above prior year.
- Meals & Rooms Tax - $6.0 million (3.4%) above plan and $8.5 million (4.9%) above prior year.
- Tobacco Tax - $3.0 million (2.1%) above plan and $10.0 million (7.3%) above the prior year. The increase was due, in part, to advance purchases made in July 2013 in anticipation of the tax rate increase on August 1, 2013.
- Real Estate Transfer Tax - $2.2 million (3.1%) above plan and $5.5 million (8.2%) above prior year.

Transfers from the Liquor Commission also were above plan by $4.7 million (5.2%) and above prior year by $5.8 million (6.5%).

The performance of both the Interest & Dividends Tax and the Communications Tax were below plan and prior year as follows:

- Interest & Dividends Tax - $2.7 million (7.5%) below plan and $1.7 million (4.9%) below prior year.
- Communications Tax - $2.3 million (5.6%) below plan and $1.8 million (4.4%) below prior year.

In addition, unrestricted Board and Care revenue, included on the "Other" unrestricted revenue category in the prior year, is budgeted as restricted funds in the 2014-2015 operating budget, removing $18 million in Other unrestricted revenue. All information in the table below for fiscal year 2014 is preliminary, unaudited and subject to change.

GENERAL AND EDUCATION TRUST FUNDS UNRESTRICTED REVENUES

FOR THE EIGHT MONTHS ENDED FEBRUARY 28, 2014

(In Millions)

Revenue Category	FY 2013 Actual	Unaudited FY 2014 Actual	FY 2014 Plan	FY 2014 vs Plan Variance	FY 2014 vs Plan % Change	FY 2014 vs FY 2013 Variance	FY 2014 vs FY 2013 % Change
Business Profits Tax	$154.2	$155.1	$154.0	$1.1	.7%	$.9	0.6%
Business Enterprise Tax	108.5	109.8	103.8	6.0	5.8%	1.3	1.2%
Subtotal	262.7	264.9	257.8	7.1	2.8%	2.2	0.8%
Meals & Rooms Tax	173.9	182.4	176.4	6.0	3.4%	8.5	4.9%
Tobacco Tax	137.3	147.3	144.3	3.0	2.1%	10.0	7.3%
Transfer from Liquor Commission	89.2	95.0	90.3	4.7	5.2%	5.8	6.5%
Interest & Dividends Tax	35.0	33.3	36.0	(2.5)	-7.5%	(1.7)	-4.9%
Insurance Tax	14.6	14.4	13.5	0.9	6.7%	(0.2)	-1.4%
Communications Tax	40.7	38.9	41.2	(2.3)	-5.6%	(1.8)	-4.4%
Real Estate Transfer Tax	66.8	72.3	70.1	2.2	3.1%	5.5	8.2%
Securities Revenue	13.9	14.7	14.3	0.4	2.8%	0.8	5.8%
Transfers from Lottery Commission	42.7	44.3	44.7	(0.4)	-0.9%	1.6	3.7%
Transfers from Racing & Charitable Gaming Commission	1.8	1.6	2.1	(0.5)	-23.8%	(0.2)	-11.1%
Tobacco Settlement	-	0.1	-	0.1	100%	0.1	100%
Utility Property Tax	16.7	18.0	18.8	(0.8)	-4.3%	1.3	7.8%
State Property Tax	-	-		-	-	-	-
Other	74.6	54.8	53.3	1.5	2.8%	(19.8)	-26.5%
Subtotal	969.9	982.0	962.8	19.2	2.0%	12.1	1.2%
Net Medicaid Enhancement Tax (MET) Revenues*	70.8	72.2	72.2	-	0.0%	1.4	2.0%
Recoveries	2.6	2.6	3.0	(0.4)	-13.3%	-	0.0%
Subtotal	1,043.3	1,056.8	1,038.0	18.8	1.8%	13.5	1.3%
Total	$1,043.3	$1,056.8	$1,038.0	$18.8	1.8%	$13.5	1.3%

*Represents the portion of total MET revenues credited to the General Fund as unrestricted revenue. See *STATE FINANCES – State Revenues – Medicaid Enhancement Tax (MET) Revenues* on pages 17-19 of the Information Statement.

Operating Budget Fiscal Years 2014 and 2015

The first paragraph under this heading on page 33 is replaced with the following:

General and Education Trust Funds. Chapters 143 and 144 of the Laws of 2013, the operating budget for fiscal years 2014 and 2015, were signed by the Governor and became law on June 28, 2013. The adopted budget assumes a $56.9 million surplus at June 30, 2013 to be carried forward as general fund revenue into fiscal year 2014. However, audited results for the year ended June 30, 2013, indicate that fiscal year 2013 closed with a $72.2 million surplus, which is $15.3 million more than previously assumed. Multiple pieces of legislation are currently moving through the House and Senate to determine whether all or a portion of the $15.3 million should be credited to the State's rainy day fund or be used to offset cuts made to the Department of Health and Human Services. Final disposition of the legislation is unknown.

Total net appropriations (including estimated lapses) for the General and Education Trust Funds for fiscal years 2014 and 2015 as set forth in Chapter 143 and 144 of the Laws of 2013 are $2,287.2 million and $2,319.3 million, respectively. Lapse estimates are $50.0 million and $51.9 million for fiscal years 2014 and 2015, respectively. Audited fiscal year 2013 results indicate lapses were $61.1 million; however, the State cannot predict whether fiscal year 2014 or 2015 lapse estimates will be achieved. Total net General and Education Trust Fund appropriations are 3% greater than expenditures in the 2012-2013 biennium, amounting to an increase of $145.4 million over the biennium. Noteworthy funding and program changes in the 2014-2015 budgeted appropriations include:

The following is added to the end of the third bullet on page 33:

In January of 2014, a judge approved a settlement agreement concerning *Dube, et al. v. Governor Margaret Wood Hassan* between the State and the United States Department of Justice which further enhances and expands mental health service capacity. On March 20, 2014, the House adopted a bill (HB 1635) that would appropriate an additional $11.3 million in the 2014-2015 biennium to satisfy the terms of the settlement agreement. HB 1635 now moves to the Senate for consideration. See LITIGATION – *Dube, et al. v. Governor Margaret Wood Hassan.*

MEDICAID PROGRAM

The following sentence is added to the end of the paragraph *New Hampshire Medicaid Financial Summary* on page 40:

For the twelve month period ending December 2013, Medicaid enrollment decreased by 2.4% and has leveled off at 126,905 covered persons.

The table on page 43 titled **Medicaid Provider Payments (Unaudited) Fiscal Year 2014** is deleted and replaced with the following:

Medicaid Provider Payments (Unaudited) - Fiscal Year 2014
(Provider Payments, Outpatient Hospital, Prescription Drugs)

Fee-for-Service ONLY (Care Management effective 12/1/13)

	Budgeted	**Expended**	**Under/(Over) Budget**
Jul-13	$34,256,263	$29,803,207	$4,453,057
Aug-13	42,820,329	49,438,554	(6,618,224)
Sep-13	34,256,263	40,280,037	(6,023,774)
Oct-13	34,256,263	33,593,181	663,083
Nov-13	42,820,329	40,463,629	2,356,700
Dec-13	20,668,711	24,149,456	(3,480,745)
Jan-14	20,668,711	18,530,576	2,138,135
Feb-14	20,668,711	N/A	N/A
Mar-14	20,668,711	N/A	N/A
Apr-14	20,668,711	N/A	N/A
May-14	20,668,711	N/A	N/A
Jun-14	20,668,711	N/A	N/A
Total	**$333,090,425**	N/A	N/A

The following sentence is added to the end of the second paragraph under *Medicaid Managed Care Model and Implementation* on page 43:

On December 1, 2013, the Department implemented Medicaid Care Management to provide Medicaid medical services, which will not change the eligibility, but will impact how Medicaid services are delivered.

The following sentence replaces the last sentence in the first paragraph of *Medicaid Management Information System (MMIS)* on page 43:

As of February 28, 2014, the State had recouped $50.1 million and approximately $6.1 million of estimated contingency payments remained outstanding.

The following sentence replaces the first sentence of the third paragraph under the heading *New Hampshire's Disproportionate Share Hospital (DSH) Program* (as appearing immediately following the table of ***Negative Grants*** on page 44):

Each installment, including the final installment for the quarter ended December 31, 2013, has been paid on schedule.

The last two sentences of the third paragraph under the heading *Medicaid Expansion* on page 46 are deleted and the following update is inserted:

Senate Bill 413 (SB 413), relative to access to health insurance coverage, provides, in part:

"*Statement of Purpose.* The state of New Hampshire shall develop the New Hampshire health protection program to provide a coordinated strategy to access private insurance coverage for uninsured, low-income citizens with income up to 133 percent of the federal poverty level (FPL) using available, cost-effective health care coverage options for Medicaid newly eligible individuals at the earliest practicable date. The strategy shall promote the improvement of overall health through access to private insurance coverage options and draw appropriate levels of federal funding available through a Medicaid Section 1115 demonstration waiver. Increasing access to private health insurance will increase provider reimbursement rates and reduce the burden of uncompensated care in New Hampshire."

The legislature has passed SB 413 and the Governor signed it into law on March 27, 2014. It is estimated that in fiscal year 2015, the State will receive $287 million in federal funds to provide private health insurance coverage to approximately 37,000 people newly eligible for the benefit. Fiscal year 2015 implementation costs are projected to total $8.2 million, of which $4.48 million will be funded by the federal government and $3.75 million will be funded by the State general fund.

STATE RETIREMENT SYSTEM

This section is re-stated in its entirety and marked to show changes as compared to the same section set forth in the Information Statement.

Overview

The State maintains a defined benefit pension plan, which is administered by the New Hampshire Retirement System ("NHRS" or "System"). The System administers one cost-sharing multiple-employer pension plan (the "Pension Plan") and four separate cost-sharing multiple-employer postemployment medical subsidy healthcare plans (the "Medical Subsidy Plans" and collectively, with the Pension Plan, the "Plans"). The Pension Plan covers effectively all State employees and all public primary and secondary teachers, law enforcement and fire service employees. Full-time employment is required to join the Plan. In addition, New Hampshire political subdivisions may elect to join the NHRS to cover their other employees. At June 30, 2013, there were approximately 48,688 active, 1,261 inactive vested, 7,273 inactive non-vested, and 29,729 retired members of the System. The System provides service, disability, death and vested deferred pension retirement benefits to its members and their beneficiaries.

The State and participating political subdivisions appropriate funding for the Plans based on percentage rates for each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are based on biennial actuarial valuations. The Plan's unfunded liabilities are currently amortized over a 30-year period beginning July 1, 2009. The thirty year amortization period began with the actuarial valuation performed as of June 30, 2007 as required by law, however because of the lag between valuation results and effective date of corresponding employer rates, the actual amortization of the liability began on July 1, 2009. The System also provides postemployment health benefit plans through the Medical Subsidy Plans. The Medical Subsidy Plans are effectively functioning on a pay-as-you-go basis. Medical subsidy payments are made by the System from a 401(h) subtrust on behalf of a closed group of eligible participants. Medical subsidy payments are made directly to former employers (State and local governments), insurance companies, and third party health insurance administrators to offset the cost of health insurance for the eligible retirees. The balance of the insurance premium is paid by either the retiree or the former employer, depending on the employer's policy.

Additional information pertaining to the Pension Plan is contained in the State's audited financial statements for the year ended June 30, ~~2012~~2013 at note 10, which financial statements are incorporated by reference in this Information Statement and included as Exhibit A hereto. The System's audited financial statements are also included in the State's Comprehensive Annual Financial Report for the year ended June 30, ~~2012~~2013 (the "~~2012~~2013 CAFR"), which report is also incorporated herein by reference and may be accessed at *http://admin.state.nh.us/accounting/*. The ~~2012~~2013 CAFR has also been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system, which may be accessed at *http://emma.msrb.org*.

The System issues publicly available financial reports that may be obtained by requesting them in writing at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at *www.nhrs.org*. Currently available reports include the System's Comprehensive Annual Financial Report for the year ended June 30, ~~2012~~2013 (the "~~2012~~2013 System CAFR"), which may be accessed at *www.nhrs.org/Investments/Reports.aspx* and the Actuarial Valuation Report as of June 30, ~~2012~~2013 (the "~~2012~~2013 Actuarial Valuation"), which may be accessed at *www.nhrs.org/Investments/Valuations.aspx*. The ~~2012~~2013 System CAFR and the ~~2012~~2013 Actuarial Valuation are incorporated herein by reference. Similar reports for prior years are also available from the System at the addresses set forth above or at *www.nhrs.org*. ~~At its November 12, 2013 meeting, the Board received from its actuaries an executive summary of the 2013 actuarial valuation that the Board expects to receive, along with the 2013 System CAFR, at its December 10, 2013 meeting.~~ The 2013 actuarial valuation ~~is likely to be~~ was approved by the Board at its ~~January 2014 meeting. The executive summary can be found starting on page 10 of the materials for the November 2013 Board meeting at *http://nhrs.org/Events/MeetingDetails.aspx?id=78*.~~ February 11, 2014 meeting. Employer contribution rates based on the 2013 Actuarial Valuation will be certified later this fall.

The Board of Trustees (the "Board") accepted the 2011 Actuarial Valuation on July 10, 2012, and certified the employer contribution rates for the 2014-2015 biennium on September 11, 2012. By law, the Board was required to certify those rates by October 1, 2012. See *Results of Actuarial Valuations* below.

In March 2011, the System received an actuarial experience study (the "2005-2010 Experience Study") of the System for the period July 1, 2005 through June 30, 2010. The 2005-2010 Experience Study is incorporated herein by reference and may be accessed at *www.nhrs.org/Investments/Valuations.aspx*. See "2005-2010 Experience Study" below for a description of the recommendations and the impact of the recommendations on the aggregate estimates of the Plans and contributions due from the State and participants.

On March 18, 2011, the NHRS Independent Investment Committee voted to recommend to the NHRS Board of Trustees that the assumed investment rate of return be lowered from 8.5% to 7.75%. While not binding on the Board, the actuary recommended in the 2005-2010 Experience Study that the assumed investment rate of return be reduced to within a range of 7.5% to 8.0% for the biennial valuation to be performed as of June 30, 2011 which was used to set contribution rates for fiscal years 2014 and 2015. On May 10, 2011, the Board of Trustees voted to adopt actuarial assumptions to be used by the actuary when performing the actuarial valuation as of June 30, 2011, which was used to set the employer contribution rates for fiscal years 2014 and 2015. In addition to the demographic and economic assumptions recommended by the System's actuary, the most significant assumption changes adopted by the Board lowered the assumed rate of return from 8.5% to 7.75% and lowered the wage growth assumption from 4.5% to 3.75%. Effective with the 2011 valuation, these revised assumptions will continue to be factored in to rate setting until the next five year experience study, for the period from 2010 through 2015, is conducted. See "2005-2010 Experience Study" below for information regarding the impact of these changes. Pursuant to Chapter 224:188, Laws of 2011, on August 4, 2011, the Board of Trustees recertified the employer rates for fiscal years 2012 and 2013, effective August 1, 2011. In the recertification, as required by law, the Board took into consideration all the pension changes from Chapter 224 Laws of 2011and used the actuarial assumptions adopted by the Board when originally setting the fiscal year 2012 and 2013 rates (8.5% assumed rate of return and 4.5% assumed wage growth) in September 2010.

Effective July 1, 2011, the membership of the NHRS Board of Trustees was substantially changed. Under prior law, the 14 member Board included two active members from each of the four member groups, one senator, one representative, two public members appointed by the Governor and Council, an employer member from the New Hampshire municipal association and the State Treasurer. The new 13 member Board is now made up of one active member from each of the four member groups, four public members appointed by the Governor and Council, the State Treasurer and four employer members one each from the municipal association, school boards association, association of counties and a member to represent management of the State.

Financing

The financing of the System is provided through both member and employer contributions from the State and political subdivisions. The member contribution is set by State statute and prior to July 1, 2011 equaled 5% of payroll for State and political subdivision employees and teachers and 9.3% for police and firefighters. Effective for all State employees hired after June 30, 2009, the member rate is 7%. Effective July 1, 2011, the statutory member contributions equal 7% for all State and political subdivision employees and teachers, 11.55% for police members and 11.80% for fire service members. See LITIGATION - *Professional Firefighters, et al v. State of New Hampshire.* The employer contribution rate is based on a biennial actuarial valuation performed by an independent actuary and then certified by the NHRS Board of Trustees. The State Constitution provides that the employer contributions certified as payable to the System to fund the System's liabilities, as determined by "sound actuarial valuation and practice," shall be appropriated each fiscal year in the amount so certified.

The NHRS interpreted the effective date for the increase in member rates to be applicable to paychecks issued on or after July 1, 2011. All employers, with the exception of the State, collected and remitted the higher member contributions for paychecks dated on or after July 1, 2011. The State interpreted the law to be effective for service rendered on or after July 1, 2011. Therefore State employees did not pay the higher member contribution rate until the paycheck dated July 29, 2011. The member contributions not remitted by the State in July 2011 approximate $825,000. State administrative rules authorize the Board of Trustees to suspend requirements when a member will be harmed through no fault of the member and further states the party determined to be at fault will reimburse the NHRS. Under this authority, the Board of Trustees voted at its October 11, 2011 meeting to waive the pending contribution adjustment to its State members so that full service credit can be provided to those members. Further, the Board of Trustees proceeded to act under its administrative and statutory authority to adjust for the $825,000 as reflected in the 2011 Actuarial Valuation, accepted by the Board July 10, 2012.

On June 29, 2011, the Professional Firefighters of New Hampshire, New Hampshire Police Association, National Education Association – New Hampshire and State Employees Association of New Hampshire filed a Motion for a Temporary Restraining Order against the State in Merrimack County Superior Court seeking status quo on member contribution rates and recertification of fiscal year 2012 and 2013 employer contribution rates until such time as the Court could rule on the Petition for Declaratory and Injunctive Relief filed by the same petitioners on the same day. While the NHRS is not a named party in the suit, it would certainly be impacted by a final decision and the petitioners and the State have included the NHRS on correspondence and court orders as the case progresses. The Court declined to issue an immediate injunction but set a hearing for September 12, 2011. That hearing was continued until November 17, 2011. On January 6, 2012, the Court issued an Order dismissing both claims but offered the petitioners 30 days to amend their complaint to allow them to identify individual members who were vested as defined by the Court and consequently suffered a substantial impairment of a vested contract right due to the increase in member contribution rates. On February 24, 2012, the petitioners filed an amended complaint. On March 22, 2012, the State filed a renewed Motion to Dismiss to which the petitioners responded with an Objection on April 2, 2012, citing the New Hampshire Supreme Court's March 30, 2012, *Cloutier v. State* decision. In early July 2012, counsel for the parties filed a joint motion for interlocutory appeal in an attempt to expedite the issues under appeal to the New Hampshire Supreme Court. On July 27, 2012, the Superior Court approved the interlocutory appeal and the parties then filed a joint statement to the Supreme Court for its consideration. On September 26, 2012, the Supreme Court declined to accept the case, thereby returning it to the Superior Court for final disposition before being appealed to the New Hampshire Supreme Court. A scheduling conference was held in Superior Court on January 17, 2013. All cross motions and memos of law in support of the Parties' Motions for Summary Judgment were filed by April 30, 2013. Objections were filed by the end of May. Oral argument on the cross motions for summary judgment was held July 1, 2013. At the Judge's request, on July 3, 2013 the parties filed joint stipulations as to historical changes in member contribution rates as well as the hire dates of the Petitioners; whether such hire dates occurred before or after such rate changes; and whether there was an accompanying increase in benefits if there was an increase in contributions. The Petitioners also file a voluntary nonsuit without prejudice and that the State agreed to toll the statute of limitations regarding the Petitioners' claim for attorney fees. On September 9, 2013 the Court issued an Order finding that it was unconstitutional to increase the level of contributions required from those Petitioners who were vested by virtue of the fact they had 10 years of creditable service as of the legislative enactment on July 1, 2011. ~~On~~In October ~~8,~~ 2013, ~~the State~~ both parties filed ~~a notice~~ notices of appeal with the Supreme Court. All parties have filed briefs and oral argument has not yet been scheduled. It is not possible to predict the outcome of the case at this time See LITIGATION – *Professional Firefighters, et al v. State of New Hampshire*.

The Pension Plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. The Medical Subsidy Plans consists of four groups: 1) State employees, 2) political subdivision employees, 3) teachers, and 4) police officers and firefighters. The State funds 100% of the employer cost for the Plans for all State employees and, prior to fiscal year 2010, the

State funded 35% of the employer cost for teachers, firefighters and police officers employed by political subdivisions. Due to changes made in the 2009 legislative session, the State funded 30% of the employer cost for these three employee classes in fiscal year 2010 and 25% of the employer cost for such employees in fiscal year 2011. Pursuant to Chapter 224, Laws of 2011, effective July 1, 2011, the State no longer shares in the funding of local employer contributions, with the exception of $3.5 million that was paid in fiscal year 2012.

The reduced percentage contribution for the State's share of local employers in fiscal years 2010 and 2011 reduced the State's aggregate contributions to the Plans in those years by $8.59 million and $18.73 million, respectively. The budget adopted for fiscal years 2012 and 2013 removed State funding for local employer contributions with the exception of $3.5 million in fiscal year 2012 noted above. With the significant legislative changes made to pension eligibility coupled with increased member contributions, the State paid approximately $63.2 million less in fiscal year 2012 and $65.6 million less in fiscal year 2013 than would have been the case with no change in law and resumption of 35% State sharing of local employer contributions. The budget adopted for fiscal years 2014 and 2015 did not include any State funding for local employer contributions. See *Total Employer Contributions to NHRS* tables below.

Chapter 224, Laws of 2011 includes many changes to eligibility and pension benefits, primarily for new members and members that are not vested as of January 1, 2012. These changes are intended to reduce the future pension liability and include, but are not limited to:

- Increasing the retirement age for employees and teachers from 60 to 65.
- Increasing the minimum retirement age for police and fire from 45 with 20 years of service to 50 with 25 years of service.
- Average final compensation (AFC) used to calculate pension benefits will be calculated using the highest five years' salary rather than the current highest three years' salary. In addition, compensation in excess of base pay in the final years of service will not be included. Caps have been defined for maximum retirement benefits.

Chapter 224:188, Laws of 2011 also required the Board of Trustees to recertify the employer rates for fiscal years 2012 and 2013 taking into consideration all the recent legislative changes and using the actuarial assumptions used by the Board when originally setting the fiscal year 2012 and 2013 rates (8.5% assumed rate of return and 4.5% assumed wage growth). The Board voted on June 14, 2011 that if rates for fiscal years 2012 and 2013 were to be recertified, it would use the new actuarial assumptions that it recently adopted to set the rates for fiscal years 2014 and 2015 (7.75% asumed rate of return and 3.75% assumed wage growth). The Board voted in a Special Meeting on June 28, 2011 to seek an injunction to bar this section of law from taking effect, believing it unconstitutional for the legislature to require the Board to use certain actuarial assumptions. A Petition for Injunctive Relief was filed with the Merrimack County Superior Court on July 12, 2011. The Court denied the request and effective August 1, 2011, the Board recertified employer rates for fiscal years 2012 and 2013 as mandated by Chapter 244:188, Laws of 2011. In late September 2011, the Board decided not to pursue the recertification lawsuit following the assent of the New Hampshire Attorney General's office to file a particular type of withdrawal – referred to as neither party docket markings.

The State's Annual Required Contribution ("ARC") shown below represents both Pension Plan and Medical Subsidy Plans contributions currently required by statute for both State employees and the State's share of employer contributions for local government employees. The contribution amounts are determined as a percentage of the payroll for eligible employees. Accordingly, the actual dollar amount of contributions in any year will vary from estimates to the extent the actual payroll varies. The amounts shown in the table below for fiscal year 2013 are ~~unaudited~~audited and ~~subject to change. The~~ the amounts for 2014 are estimates made by the NHRS based on 2013 actual experience. The actual contribution by the State and local participants will likely differ from the amounts shown.

Total Employer Contributions to NHRS (Pension and Medical Subsidy)
(in millions)

Fiscal Year	Total Employer	% of ARC	State Share: For State Employees	State Share: On Behalf of Local	State Share: Total	State Share % of Total	Local Share	Local Share % of Total
2014(est)[1]	$383.7	100%	$80.8	$0.0	$80.8	21%	$302.9	79%
2013~~(unaud)~~	299.5	100%	66.0	0.0	66.0	22%	233.5	78%
2012	303.5	100%	70.2	3.5	73.7	24%	229.8	76%
2011	307.5	100%	73.6	44.3	117.9	38%	189.6	62%
2010	302.2	100%	74.5	51.5	126.0	42%	176.2	58%
2009	261.5	75%	60.5	51.0	111.5	43%	150.0	57%
2008	249.9	75%	56.6	50.2	106.8	43%	143.1	57%
2007	178.6	100%	42.0	36.1	78.1	44%	100.5	56%
2006	170.8	100%	39.1	33.6	72.7	43%	98.1	57%
2005	133.1	100%	34.1	25.6	59.7	45%	73.4	55%

[1] The amounts shown for fiscal year 2014 are estimates made by NHRS based on 2013 actual experience.

As discussed below under "Medical Subsidy Plans," starting in fiscal year 2007, changes were made to the way the Medical Subsidy Plans were accounted for and funded. For years prior to fiscal year 2008, and in accordance with State statute, 25% of employer contributions were credited to the 401(h) Medical Subsidy Plans when received; the Pension Plan was then made whole by transferring assets from a Medical Special Account to the Pension Plan. On the advice of NHRS counsel, the NHRS stopped this practice effective for fiscal year 2008.

As a result of this changed practice and as reported in the June 30, 2008 interim actuarial valuation discussed below, only 75% of the ARC was contributed in fiscal years 2008 and 2009. While the State and all other employers had consistently paid 100% of the rates certified by the NHRS Board of Trustees, the rates certified by the NHRS Board of Trustees in 2005 with respect to fiscal years 2008 and 2009 did not include a separate component for the funding of the Medical Subsidy Plans. At the time such rates were certified in 2005, the NHRS Board of Trustees was not aware that the Pension Plan would only be credited with 75% of the ARC for fiscal years 2008 and 2009, as a result of the change in practice with respect to Medical Subsidy Plans described above, which first took effect in fiscal year 2008.

The difference between the State's ARC and the actual State contributions for fiscal years 2008 and 2009, approximately $27 million and $28 million, respectively, have been accrued as a liability in the State's government-wide financial statements as a net pension obligation and will be funded through future employer contributions.

The state law that established a Special Account to fund or partially fund additional benefits, such as cost of living adjustments and any other additional benefits that may be approved by the Legislature from time to time was repealed during the fiscal year 2012 legslative session by Chapter 261. The Special Account was credited annually with all of the earnings on an actuarial basis of the Special Account assets plus, under prior law, the earnings on the remaining assets of the Pension Plan in excess of the assumed rate of return plus ½ of 1%. However, legislation was enacted in fiscal year 2007 that restricted any funds from being credited to the Special Account until the funded ratio of the consolidated retirement system as of June 30th of any given year was equal to or greater than 85%. Upon achievement of the 85% funded ratio, only returns in excess of ten and one-half percent would be allocated to the Special Account. As required by Chapter 224, Laws of 2011 any amounts in the Special Account as of June 30, 2011 were transferred to the main pension trust, except for a holdback of approximately $20 million to fund legislatively approved temporary supplemental benefit allowances (TSA) for political subdivision employees receiving medical subsidy benefits due July 1, 2012. As stated above, the Special Account was repealed by Chapter 261, Laws of 2012, and all remaining funds transferred back to the main pension trust after the July 1, 2012 TSA was paid.

2005-2010 Experience Study

On March 8, 2011 the Board of Trustees accepted the 2005-2010 Experience Study for the period July 1, 2005 through June 30, 2010. The 2005-2010 Experience Study contains related information regarding the System and can be accessed in its entirety at *http://nhrs.org/documents/NHRS_5_Year_Experience_Study_March_2011.pdf*. In addition to demographic and economic assumptions recommended by the System's actuary, significant recommendations included reducing the current 8.5% investment rate of return to within a range of 7.5% to 8.0% and reducing the current 4.5% assumed wage growth to within a range of 3.5% to 4.0%. The Board of Trustees voted on May 10, 2011 to adopt 7.75% as the assumed rate of return and 3.75% as the assumed wage growth for use in the 2011 Actuarial Valuation.

Results of Actuarial Valuations

The NHRS has actuarial valuations performed biennially in each odd-numbered year, the results of which are used to determine the employer contribution rate for the next succeeding biennium. The actuarial valuation dated as of June 30, 2009 was used to determine the required contributions for fiscal years 2012 and 2013 and the final June 30, 2011 actuarial valuation was used to determine the required contributions for fiscal years 2014 and 2015. The June 30, 2013 valuation will be used to set rates for fiscal years 2016 and 2017. The 2011 Actuarial Valuation was issued in November 2011, revised in January 2012 and accepted by the Board of Trustees at their July 10, 2012 meeting.

An interim valuation as of June 30, 2012 was prepared and accepted by the Board of Trustees on January 8, 2013. This interim valuation is for informational purposes only and will not be used to set contribution rates. Overall, plan experience was unfavorable. The rate of return for the year ending June 30, 2012 was 3.22% on the actuarial value of assets, below the assumed rate of return of 7.75% resulting in a recognized loss of $260 million (pension and medical subsidy combined). Total covered payroll decreased by 1.19% versus the assumed increase of 3.75%. The decrease in payroll results in an increased pension liability. If the 2012 valuation were to be used to set contribution rates, the experience would have increased the employer contribution rate by 0.80% of payroll (pension and medical subsidy combined) and decreased the pension funded ratio by 1.3%.

The June 30, 2013 valuation is a rate setting valuation ~~and is expected to be made available to the Board of Trustees at its December 10, 2013 meeting and is expected to be~~ that was approved by the Board at its ~~January 14,~~ February 11, 2014 meeting. ~~At the November 12, 2013 Board meeting, the System's actuaries presented an executive summary of the 2013 actuarial valuation.~~ The Board of Trustees did not set rates at that time but is required by statute to set employer contribution rates based on the valuation no later than October 1, 2014.

Actuarial Valuations can be viewed in their entirety at *www.nhrs.org/Investments/Valuations.aspx*. Based on the ~~executive summary provided by the actuaries at the November 12, 2013 Board meeting~~2013 Actuarial Valuation, the net assets available to pay benefits at actuarial value was reported to be $6,092.5 million. The market value of assets as of June 30, 2013 was approximately $335.5 million more than the actuarial value. The total pension accrued liability at June 30, 2013 was $10,708.8 million, resulting in an unfunded accrued pension liability at June 30, 2013 of $4,638.1 million and a funded ratio of 56.7%. Effective July 1, 2007 the System's actuarial cost method changed from the open group aggregate cost method to the more widely used entry age normal cost method. The total liabilities since that date have been determined using the entry age normal actuarial cost method and a 30-year closed amortization of the unfunded accrued actuarial liability. Due to the fact that contributions for any particular fiscal year are determined by actuarial valuation performed up to four years prior to a particular year, the contributions that reflect the 30 year amortization began with fiscal year 2010.

The actuary for the Plans uses several actuarial assumptions including the investment return rate at 7.75% (and 3.75% for Medical Subsidy Plans for GASB reporting purposes) as of the 2011 Actuarial Valuation and the wage inflation rate at 3.75%. The actuary also uses so-called "smoothing," whereby the difference between the market value of assets and the actuarial value of assets is smoothed over the previous five years to offset the effects of volatility of market values in any single year. In addition, the NHRS uses a 20% "corridor" in order to prevent the smoothed value from varying too far from market. The use of the 20% corridor means that very large gains and losses (i.e., ones that would produce a smoothed value that is more than 20% higher or lower than the actual market value) will not be presumed to be completely transitory and will be reflected immediately in funding. The use of the corridor in the 2009 actuarial valuations for the Plans lowered the actuarial value of assets that would have been established in its absence and thus raised the ARC in fiscal years 2012 and 2013.

The ~~executive summary of the 2013 actuarial valuation~~ 2013 Actuarial Valuation indicates a June 30, 2013 unfunded accrued actuarial liability ("UAAL") of $4,638 million, less than the June 30, 2013 UAAL projected on page 23 of the 2012 Interim Valuation. Because the UAAL is being funded at a level percent of payroll over a closed period (26 years remaining at June 30, 2013), it is expected that the UAAL will continue to increase until 2020 even if all assumptions are met. ~~During fiscal year 2013 the Plan experienced an investment loss of $32.7 million, but a liability gain of $101.0 million resulting in a net gain of $68.3 million.~~

The NHRS medical subsidy UAAL decreased by approximately $18.4 million as of June 30, 2013 as compared to the UAAL as of June 30, 2012. This liability is separate and in addition to the State OPEB liability discussed under "HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES."

Employer contribution rates depend on all of the actuarial assumptions used in determining the contribution rates. The following table sets forth a summary of certain assumptions used in the 2011 Actuarial Valuation, which contains detailed information regarding the System's funding progress, employer contribution rates and actuarial information to be used for certain accounting reporting purposes. The assumptions for the investment rate of return and rate of payroll growth were changed following the acceptance of the five year experience study to 7.75% and 3.75%, respectively. These assumptions were used for the 2011 valuation and for all subsequent valuations until the next five year experience study, for the period from 2010 through 2015, is conducted. The assumptions for the investment rate of return and payroll growth used in the two prior valuations were 8.50% and 4.50%, respectively and were the assumptions used to determine the contributions required for fiscal years 2010 through 2013.

Pursuant to Chapter 224:188, Laws of 2011, on August 4, 2011, the Board of Trustees recertified the employer rates for fiscal years 2012 and 2013, effective August 1, 2011. In the recertification, as required by law, the Board took into consideration all the pension changes from Chapter 224 and used the actuarial assumptions adopted by the Board when originally setting the fiscal year 2012 and 2013 rates (8.5% assumed rate of return and 4.5% assumed wage growth) in September 2010.

New Hampshire Retirement System
Pension and Medical Subsidy Plans Assumptions

	Pension Plan	Medical Subsidy Plans
Actuarial Cost Method	Entry age normal	Entry age normal
Amortization Method	Level percentage of payroll, closed	Level percentage of payroll, closed
Equivalent single amortization period	30 years From 7/1/2009	*
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial Assumptions:		
Investment rate of return*	7.75%	3.75%
Projected salary increases*	4.15% to 24.55%	4.15% to 24.55%
***Includes Price Inflation at**	3.0%	3.0%
Rate of Payroll Growth	3.75%	3.75%
Valuation Health Care Trend Rate	N/A	N/A-The Medical Subsidy Plans provides a specific dollar subsidy to be used for health care. The subsidy increased 8.0% for fiscal year 2007 by statute. Effective July 1, 2008, the annual increase will be 0.0%.

* Because the Medical Subsidy Plan is effectively a pay-as-you-go benefit provided to a closed group of eligible participants, the contribution needed to fund the benefits on a pay-as-you-go basis are intended to meet or exceed the contribution that would be otherwise necessary to amortize the liability under a 30 year amortization period.

As discussed previously, Chapter 224, Laws of 2011, required the Board of Trustees to recertify the employer rates for fiscal years 2012 and 2013 applying changes adopted during the 2011 legislative session and using actuarial assumptions used by the Board when originally setting the rates in September 2010 for fiscal years 2012 and 2013. The Board recertified the employer rates effective August 1, 2011, and those recertified rates are shown below. The rates for fiscal years 2014 and 2015 were certified by the Board on September 11, 2012 following acceptance of the 2011 Actuarial Valuation on July 10, 2012, ahead of the October 1, 2012 statutory requirement. The rates for 2016 and 2017 are projected based on the ~~executive summary presented by the System's actuaries on November 12, 2013.~~ 2013 Actuarial Valuation approved by the Board of Trustees February 11, 2014. The Board is expected to certify rates for fiscal years 2016 and 2017 later this fall.

Combined Employer Contribution Rates for Pension Plan and Medical Subsidy Plans For Fiscal Years 2011-2015 Certified by Board, 2016-2017 Projected

	Certified			Projected
	2011	2012 and 2013	2014 and 2015	2016 and 2017
Employees				
State	11.05%	10.08%	12.13%	12.50%
Political Subdivisions	9.16	8.80	10.77	11.17
Teachers	10.70	11.30	14.16	15.67
Police				
State	19.51	19.95	25.40	26.38
Political Subdivisions	19.51	19.95	25.30	26.38
Fire				
State	24.69	22.89	27.85	29.16
Political Subdivisions	24.69	22.89	27.74	29.16

The following tables provide a ten year history of funded ratios based on actuarial value of assets separated for the Pension Plan and the Medical Subsidy Plans. It is important to note that assets in the Special Account are not included in these asset values. However, fiscal year 2011 legislation authorized the transfer of all but funds needed to pay the temporary supplemental annuity payment due July 1, 2012 from the Special Account to the Pension Plan. Fiscal year 2012 legislation repealed the Special Account as of July 1, 2012. The purpose of the Special Account was to fund additional benefits, such as cost of living adjustments (COLAs).

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF PENSION PLAN FUNDING STATUS
FISCAL YEARS 2004-2013
(All Dollar Amounts in Thousands)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
2013	$6,070,681	$10,708,768	$4,638,087	56.7%
2012	5,817,882	10,361,600	4,543,719	56.1
2011	5,740,516	9,998,251	4,257,735	57.4
2010	5,233,838	8,953,932	3,720,094	58.5
2009	4,937,320	8,475,052	3,537,732	58.3
2008	5,302,034	7,821,316	2,519,282	67.8
2007	4,862,256	7,259,715	2,397,459	67.0
2006	3,928,270	6,402,875	2,474,605	61.4
2005	3,610,800	5,991,026	2,380,226	60.3
2004	3,575,641	5,029,877	1,454,236	71.1

Note: Liabilities for fiscal years 2007-~~2012~~2013 were determined under the entry age normal actuarial cost method. Liabilities for fiscal year 2006 and prior fiscal years were determined under the open group aggregate actuarial cost method. Comparisons between fiscal years 2007-~~2012~~2013 and prior years are not comparable.

Source: Information for fiscal ~~year 2013 is derived from the System's unaudited CAFR, information for fiscal~~ years 2007 through ~~2012~~2013 is derived from the System's fiscal years 2010 and ~~2012~~2013 CAFR; information for years prior to 2007 is derived from the System's actuarial valuation for each respective year.

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF MEDICAL SUBSIDY PLANS FUNDING STATUS
FISCAL YEARS 2004-2013
(All Dollar Amounts in Thousands)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
2013	$21,823	$731,872	$710,049	3.0%
2012	24,317	752,759	728,442	3.2
2011	33,218	777,572	744,354	4.3
2010	57,818	1,033,863	976,045	5.6
2009	176,800	673,390	496,590	26.3
2008	175,187	669,874	494,687	26.2
2007	156,976	638,410	481,434	24.6
2006	445,860	986,502	540,642	45.2
2005	445,918	930,675	484,757	47.9
2004	441,936	731,021	289,085	60.5

Note: $89.5 million of the asset change from fiscal year 2009 to fiscal year 2010 represents the transfer to the Special Account as part of the Plan's participation in the Voluntary Correction Program (VCP) with the IRS discussed below.

Note: Liabilities for fiscal year 2007-~~2012~~2013 were determined under the entry age normal actuarial cost method. Liabilities for fiscal year 2006 and prior fiscal years were determined under the open group aggregate actuarial cost method. Comparisons between fiscal years 2007-~~2012~~2013 and prior years are not comparable.

Source: Information for fiscal ~~year 2013 is derived from the System's unaudited CAFR, information for fiscal~~ years 2007 through ~~2012~~2013 is derived from the System's fiscal years 2010 and ~~2012~~2013 CAFR; information for years prior to 2007 is derived from the System's actuarial valuation for each respective year.

Recent Changes to Pension Obligation Reporting

In June 2012, the Government Accounting Standards Board (GASB) issued GASB Statement No. 67 and 68, which sets forth new standards that will modify the accounting and financial reporting of the State's pension obligations. The new standard for governments that provide employee pension benefits will require the State to report in its statement of net position a net pension liability, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. The new standard will require immediate recognition of more pension expense than is currently required. The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The new standard will be effective for the Plan's fiscal year 2014 and State's fiscal year 2015 financial statements.

Investments

RSA 100-A:15, I, provides separate and specific authorities to the Board of Trustees and the Independent Investment Committee for the management of the funds of the Plans and charges them with exercising the judgment and care under the circumstances then prevailing, which persons of prudence, discretion and intelligence, acting in a like capacity and familiar with such matters, would use in the conduct of a pension plan of like character and with like aims of the Plans.

Fiscal year 2010 marked the first full reporting period for which the Independent Investment Committee conducted oversight and management of the investment program. Prior to January 1, 2009, the Board of Trustees served as the NHRS Investment Committee. On that date, the Independent Investment Committee assumed its responsibilities in accordance with the provisions of RSA 100-A:14-b. The Committee is responsible for investing in accordance with policies established by the Board; making recommendations to the Board regarding investment consultants, asset allocation, and other policy matters; selecting investment managers, agents, and custodial banks; and reviewing performance. The Committee, which meets monthly, is comprised of five members: three independent members appointed by the Governor and Executive Council, and two members of the Board of Trustees appointed by the Chair of the Board. All are expected to have significant experience in institutional investment or finance.

State law requires that the Independent Investment Committee provide a comprehensive annual investment report. The report for the fiscal year ended June 30, 2012 was unanimously approved and accepted by the NHRS Board of Trustees at its December 11, 2012 regular meeting and may be accessed at *http://nhrs.org/documents/NHRS_Annual_Investment_Report_FY2012.pdf* or may be obtained, upon request, from the System at the address set forth above in "Overview." The 2013 report was discussed at the November 22, 2013 meeting of the Independent Investment Committee for approval by the Board of Trustees at its December 10, 2013 meeting.

The target allocation and range for each asset class, as most recently adopted by the Board of Trustees on September 11, 2012, are as follows:

Asset-Class	**Target Allocation**	**Allocation Range**
Domestic Equity	30%	20 – 50%
Non-U.S. Equity	20	15 – 25
Fixed Income	25	20 – 30
Real Estate	10	0 – 15
Alternative Investments	15	0 – 20

Performance returns shown below are calculated on a net-of-fees time-weighted rate of return basis.

Annualized Investment Returns

Asset Class	Percent of Assets	Periods Ending June 30, 2013 1-Year	3-Years	5-Years	10-Years
Total Fund	100.0%	14.5%	12.4%	5.6%	7.2%
Total Fund Custom Index		*13.5%*	*12.1%*	*5.5%*	*7.4%*
Domestic Equity	44.2%	23.2%	18.1%	6.5%	7.1%
Domestic Equity Blended Benchmark [1]		*21.5%*	*18.6%*	*7.2%*	*7.8%*
Non-US Equity	20.1%	13.8%	10.1%	0.6%	8.6%
Non-US Equity Blended Benchmark [1]		*13.6%*	*8.0%*	*-0.8%*	*8.6%*
Fixed Income	23.2%	2.8%	6.1%	7.3%	6.3%
Fixed Income Blended Benchmark [1]		*0.2%*	*4.1%*	*5.5%*	*4.9%*
Real Estate	9.0%	12.3%	12.5%	-0.1%	9.1%
Real Estate Blended Benchmark [1]		*11.3%*	*13.7%*	*3.2%*	*8.8%*
Alternative Investments	3.5%	8.7%	6.6%	-2.0%	0.6%
Alternative Investments Blended Benchmark [1]		*21.1%*	*12.8%*	*10.0%*	*9.1%*
Cash	0.0%	0.1%	0.1%	0.3%	1.9%
90 Day Treasury Bills		*0.1%*	*0.1%*	*0.2%*	*1.6%*

[1] In a dynamic market, strategies and objectives evolve over time. Consequently, these benchmarks are blended due to historical investment strategy decisions. Detailed descriptions of the benchmarks above are available by contacting NHRS.

Ten Year History Actuarial Value vs. Market Value of Assets

The Actuarial (Funding) Value of Assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed five-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than market value. The Funding Value of Assets is unbiased with respect to Market Value. At any time it may be either greater or less than Market Value. If assumed rates are exactly realized for four consecutive years, it will become equal to Market Value. Final Funding Value of Assets may not be less than 80% nor more than 120% of Market Value of Assets.

The table below presents a ten year history of actuarial rates of return and asset values to the market rates of return and asset values. The actuarial rate of return for each of the fiscal years prior to 2007 was calculated looking at the initial asset value, which is determined using a five year moving average method. Each year's initial value was then compared to the book value and market value for that year and the middle value was used to compute rates, provided that the middle value was not less than the five year average. For fiscal years after 2006, assets were valued on a market-related basis that recognizes each year's difference between actual and assumed investment return over a closed five year period.

The asset values presented below include all assets in the NHRS Plan Trust, including the Special Account assets that are available pursuant to RSA 100-A:16, II(h) to provide additional benefits such as cost-of-living adjustments. The Special Account assets are used in determining actuarial and market rates of return and the Special Account is appropriately credited with earnings. However, the Special Account assets are not used in calculating the funded ratios of the Pension and Medical Subsidy Plans because those assets are not available to pay the corresponding liabilities. Accordingly, Special Account assets are not included in the Ten-Year Funding Status tables found in the "Results of Actuarial Valuation" section.

New Hampshire Retirement System
Pension and Medical Subsidy
Actuarial Value vs. Market Value
Fiscal Years 2004 to 2013

Fiscal Year	**Actuarial Rate of Return** (Per Actuarial Valuation Reports)	**Actuarial Value of Assets** (in thousands)	**Market Value Rate of Return** (NHRS CAFRs)	**Market Value of Assets** (in thousands)
2013	7.12%	$6,092,504	14.5%	$6,428,009
2012	3.22	5,846,570	0.9	5,774,343
2011	6.90	5,798,249	23.0	5,891,179
2010	6.48	5,569,341	12.9	4,898,339
2009	-3.87	5,353,453	-18.1	4,461,211
2008	9.52	5,701,579	-4.6	5,597,047
2007	12.85	5,272,358	16.0	5,967,916
2006	9.27	4,647,973	10.0	5,112,256
2005	1.25	4,322,614	10.1	4,728,590
2004	1.85	4,339,537	14.9	4,391,286

Current Market Conditions

Since June 30, 2008, the liquidity crisis in the credit, housing and mortgage markets blossomed into a global economic crisis of significant proportions. Both U.S. and global investment markets experienced significant declines since June 30, 2008. For the fiscal year ended June 30, 2009, the System's total fund investment return declined 18.1% and net assets available for benefits declined $1,135.8 million to $4,461.2 million. Investment results since June 30, 2009 have improved, and as a result of that improvement, the market value of net assets available for benefits have recovered to $6.4 billion as of June 30, 2013. (It should be noted that future contributions to the System will be based upon the actuarial value of the System's assets, not market value, and such actuarial values will differ from market value.) The System's investments returned 12.9% for the year ended June 30, 2010. Based on the System's current asset allocations and market index returns over the same period, the System's investment returns are consistent with investment market returns. For the twelve months ending June 30, 2011, the System's total fund investment return (at market) was 23%. The actuarial rate of return for the year ended June 30, 2011 was 6.9%, which resulted in recognition of an actuarial loss. For the twelve months ending June 30, 2012, the System's total fund investment return (at market) was 0.9%. The actuarial rate of return for the year ended June 30, 2012 was 3.22%, which resulted in recognition of an actuarial loss. For the twelve months ending June 30, 2013, the System's total fund investment return (at market) was 14.5%. For the ~~four~~eight months ending ~~October 31, 2013,~~ February 28, 2014, the investment return for total marketable assets, approximately 90% of System assets, was ~~8.6~~13.0%. The System is a long-term investor. No prediction can be made of the short-term or long-term investment prospects for the System's investment portfolio. The System's net assets were valued at $~~6.68~~7.023 billion as of ~~September 30,~~ December 31, 2013.

Medical Subsidy Plans

The four Medical Subsidy Plans provide an offset or subsidy for retiree health premiums for a closed group of eligible participants. By law, all retirees must be provided the option to obtain retiree health benefits through their former employer's medical plan. However, the employer is not required to provide any funding for that benefit. For those eligible retirees who elect to receive health benefits through a former employer, the subsidy offsets the cost of the health benefits for the retiree, the employer or both. The State, as an employer, funds the vast majority of costs related to retiree health, therefore the medical subsidy from the Retirement System flows back to the State. (See HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES). The Medical Subsidy Plans are effectively pay-as-you-go plans and will remain so. Under current law, the cash outflow necessary to make benefit payments will continue until all benefits are paid. Effective July 1, 2011, Chapter 224, Laws of 2011 caps the maximum benefit payable and states that the subsidy amount not be increased, however all legislative provisions are subject to amendment or modification, within constitutional limits.

As required for its fiscal year 2007 implementation of GASB Statement No. 43, the System conducted an actuarial valuation dated June 30, 2007 of its Medical Subsidy Plans. As part of implementing GASB Statement No. 43, the System underwent a compliance review of its medical subsidy program. The compliance review made multiple recommendations that were unanimously adopted by the System's Board of Trustees in November 2007. These recommendations included: (1) seeking IRS approval to correct a series of transfers that occurred from fiscal years 1990 through 2000 by participating in the IRS Voluntary Correction Program (VCP) (if approved, by the IRS a transfer of at least $26.4 million would be made from the 401(h) medical subtrust to the pension reserve); (2) seeking ratification by corrective State legislation of the 33-1/3% employer contributions that were made and prospectively abide by the 25% statutory limitation; (3) eliminating the financial reporting of the $295 million Medical Special Account as part of the postemployment health benefit plans and reporting the $295 million as Pension Plan assets; and (4) establishing the appropriate subtrusts in the 401(h) account and reconstructing the accounting for those subtrusts as determined by legal counsel to be the Medical Subsidy Plans administered by the System. In addition, correcting a $17.7 million shortfall in the State Employee Group Medical Subsidy Plans that has been subsidized by contributions from the Political Subdivision Medical Subsidy Plans as more fully described in the next paragraph. All four of these items have been appropriately corrected.

On September 1, 2010, the System received a Compliance Statement from the Internal Revenue Service (IRS) in regards to its VCP filing of April 2, 2008. In that filing, the System identified plan document or operational failures that the System recommended needed to be corrected to ensure compliance with New Hampshire RSA 100-A and IRS regulations. The IRS Compliance Statement agreed with the corrective steps recommended by the System. Those failures and the corrective steps that have been taken are as follows:

- Correct a series of seven plan document failures where the System failed to timely adopt provisions to comply with certain requirements of the IRS code. The affected provisions covered minimum vesting standards, treatment of forfeitures, required minimum distributions, specified factors for actuarial equivalence, eligible rollover distributions, updated requirements for annual benefit limitations and updated requirements for annual addition limitations and definition of compensation. At its June 2011 meeting, the Board adopted policies correcting the plan document failure.
- From fiscal year 1990 through fiscal year 2000, $26.4 million was transferred from Special Account pension assets to the System's 401(h) medical subtrust. Pursuant to RSA 100-A:16, II(h), the Special Account is established to provide funding for additional benefits such as cost-of living adjustments. The funding for the Special Account was provided from earnings over a target rate that exceeded the assumed rate of return. When the Medical Subsidy Plans were originally enacted, the intent was to ultimately fund the benefit from the Special Account using a series of transfers. Specific transfers were made to fund a health subsidy for certain pre-July 1, 1988 police officer and firefighter retirees. This transfer was not permissible under Internal Revenue Code Sections 401(h) and 420. The System has corrected this operational failure and that correction is reflected in the System's fiscal year 2010 financial statements. A total transfer of $89.5 million is reflected in the fiscal year 2010 financial statements as a net asset transfer from the Police Officer and Firefighter 401(h) subtrust to the Special Account. The $89.5 million transfer consists of the original $26.4 million transfer plus interest of $63.1 million from July 1, 1989 to June 30, 2010. The Special Account had a balance of $239.1 million at June 30, 2010. Additional information pertaining to the Special Account can be found in Note 6 of the 2010 System CAFR. Pursuant to Chapter 224, Laws of 2011, effective June 30, 2011, all assets in the Special Account are transferred to the main account of the pension trust, except for a holdback of approximately $20 million to fund legislatively approved temporary supplemental benefit allowances for political subdivision employees receiving medical subsidy benefits. These allowances have been paid and the remainder of the funds transferred to the main account of the pension trust. Legislation was passed in 2012 that repealed the Special Account effective July 1, 2012. Although State statutes provided that 25% of employer contributions be credited to the 401(h) subtrust, for the time period fiscal year 2001 through fiscal year 2007, 33 1/3% of employer contributions were actually credited to the 401(h) subtrust. Failure to follow the terms of the plan document (in this case the State statutes) was considered to be an "operational failure" under IRS Revenue Procedure 2006-27. This

operational failure was corrected in fiscal year 2007 through legislation that ratified the 33 1/3% contributed during fiscal years 2001-2007.

- The System will amend the plan documents to affirmatively state that effective as of July 1, 1989, the System will determine the amount of any benefit that is determined on the basis of actuarial assumptions by using the assumptions adopted by the Board of Trustees and also state that such benefits will not be subject to employer discretion. For benefits on or after July 1, 2007, the actuarial assumptions used will be those included in the proposed plan amendments. At its June 2011 meeting, the Board adopted policies correcting the plan document failure.
- The System received a favorable tax determination letter from the IRS dated March 9, 2011 in response to the Voluntary Correction Program filing from April 2008. To comply with GASB Statement No. 43, the System received opinions from its legal counsel about the statutory construction of the Medical Subsidy Plans. Counsel concluded the System administers four such plans: (1) Group II covering law enforcement and fire safety employees, (2) Teachers, (3) Employees of Political Subdivisions and (4) Employees of the State. These opinions resulted in a shift in the way the Medical Subsidy Plans have been defined, accounted for and valued since inception. In the course of restructuring the accounting in accordance with GASB Statement No. 43, it became apparent that contributions to the Political Subdivision Employee Group plan have subsidized medical benefits paid for the State Employee Group by approximately $17.5 million, including interest, since inception.

In fiscal year 2009, legislation was enacted that required the System, beginning July 1, 2009, to certify employer contribution rates, due and payable by the State, based upon a State Employee Medical Subsidy Plan balance of $0.00. Furthermore, the legislation stated that the Board of Trustees could not certify State employer contributions rates in any subsequent fiscal year based on any payments made from the State Employee Medical Subsidy Plans prior to July 1, 2009.

Based on the 2009 legislation, and upon advice of legal counsel, the Board voted on September 14, 2010 to write off the State Employee Medical Subsidy Plans fund balance of $17.5 million effective June 30, 2010 and to disclose that action in the fiscal year 2010 annual financial report. On that same date, the Board also voted to rescind its April 8, 2008 vote to seek repayment from the State.

As a result of these actions, the System has written off the State Employee Medical Subsidy Plans deficit as of June 30, 2010 of $17.5 million and established a balance as of that same date of $0.00. The fund balance for the Political Subdivision Employee Medical Subsidy Plans was also reduced by $17.5 million to $34 million as of June 30, 2010.

The significant changes to the System's financial statements resulting from the medical subsidy compliance review delayed issuance of the System's fiscal 2007 audited financial statements until September 2008. The System issued timely financial statements for fiscal years 2008 through 2012 with unqualified auditor's opinions. Such financial statements and the report of the System's independent auditors with respect thereto can be found at *http://nhrs.org/investments/reports.aspx*. ~~The 2013 financial statements are expected to be presented to the Board of Trustees at its December 10, 2013 meeting.~~

Legislative Activity

The State has enacted various legislative changes in recent years in order to address certain issues pertaining to the System, including, among other matters, the level of benefits to be received by retirees and the contributions required to be made by employers and employees.

Certain of the legislative changes are being challenged in court, as described above, and it is possible that additional litigation will be brought in the future. The State cannot now predict the outcome of any of these matters.

The 2013 legislative session included, but was not limited to, legislation that:

- Requires NHRS-participating employers to report monthly to the retirement system information regarding NHRS retirees on their payroll, including hours worked and all compensation paid. The reporting requirement takes effect January 1, 2014, and is repealed effective January 1, 2019.

- Requires the retirement system to provide annual written notices to NHRS retirees regarding the statutory limitations on part-time employment with NHRS-participating employers.
- Allows individuals elected or appointed to the offices of town clerk and tax collector for the same employer to satisfy NHRS membership eligibility requirements by using both offices, even if the positions were not formally combined per RSA 41:45-a.
- Eliminates the application of gainful occupation reductions to the retirement allowances of Group II (Police, Fire) accidental disability beneficiaries who have years of service plus years of accidental disability retirement that total at least 20 years and who have attained the age of 45.

The 2012 legislative session included, but was not limited to, legislation that:

- Modifies the calculation of Average Final Compensation (AFC) for members not vested prior to January 1, 2012, by changing the "compensation over base pay" factor used in the AFC formula from a dollar average to a percentage average.
- Clarifies the date from which NHRS must begin calculating a 7-year average of Extra or Special Duty Pay (ESOP) for Group II (Police and Fire) members vested prior to January 1, 2012. This change excludes from the calculation any months prior to July 1, 2009, which is when ESDP began to be separately reported to NHRS.
- Clarifies the number of years of creditable service Group II (Police and Fire) members in service prior to July 1, 2011, but not vested prior to January 1, 2012, must have in order to qualify for the supplemental disability benefit available to eligible Accidental Disability retirees.
- Changes the annual effective date of changes to the member interest rate from a fiscal year to a calendar year.
- Clarifies the definition of "compensation over base pay" for members not vested prior to January 1, 2012.
- Clarifies that the maximum benefit limit for members hired before July 1, 2009, is 100 percent of Earnable Compensation and the maximum benefit limit for members hired after that date, and not vested by January 1, 2012, is the lesser of 85 percent of AFC or $120,000 per year.
- Modifies the definition of "part-time" for NHRS retirees employed by NHRS-participating employers.
- Changes the date by which NHRS Trustees must approve the retirement system's Comprehensive Annual Financial Report from December 1 to December 31 of each year.
- Repeals RSA 100-A:53, II; RSA 100-A:53-e, II; RSA 100-A:16, II(h); and RSA 100-A:16, II(j), relative to the Special Account.
- Repeals RSA 100-A:16, III-a, commonly known as the employer "spiking" assessment.

A detailed discussion of legislative activity for the 2010 and 2011 legislative sessions can be found in Note 5 of the 2011 System CAFR.

Additional legislative changes are proposed ~~from time to time~~in the 2014 legislative session but to date no proposals have yet been enacted by both the House and the Senate. The State cannot now predict what changes, if any, may be enacted into law.

LITIGATION

The following information supplements the matters indicated below since the date of the Information Statement:

State of New Hampshire v. Phillip Morris USA, RJ Reynolds, Inc. and Lorillard Tobacco Company. This matter is now closed.

American Federation of Teachers - New Hampshire, et al v. State, Retirement System and Lisa Shapiro, Individually. On November 18, 2013, the court denied the plaintiffs' motion to reconsider, and on December 3, 2013, the State filed a notice of appeal with the New Hampshire Supreme Court. On December 19, 2013, the plaintiffs filed a cross appeal. The Supreme Court has not issued a scheduling order. It is not possible to predict the outcome of the case at this time.

Leighton, et al v. State of New Hampshire. Oral argument was held on November 14, 2013. It is not possible to predict the outcome of the case at this time.

Walker Digital, LLC v. Multi-State Lottery Assoc. The Multi-State Lottery Association entered into an agreement with Walker Digital, LLC to purchase the disputed patents. The State has been informed that the litigation has been dismissed with prejudice. This matter is now closed.

Professional Firefighters, et al v. State of New Hampshire ("Fire Fighters I"). Plaintiffs have filed a cross-appeal, all parties have filed briefs and oral argument has not yet been scheduled. It is not possible to predict the outcome of the case at this time.

Anderson v. Lagos. The one remaining plaintiff has withdrawn any claim for monetary relief, and the action is proceeding on the claim for declaratory relief only. It is not possible to predict the outcome of the case at this time.

Dartmouth Hitchcock, et al v. Toumpas. The court denied the motion to stay and denied the renewed motion to dismiss without prejudice and set a status hearing to determine what if anything remained in light of further recent court decisions in other jurisdictions. Following that action, the plaintiffs voluntarily dismissed this lawsuit in November 2013, therefore this matter is closed. However two other lawsuits were filed by six of the ten plaintiffs, one in state court and one in federal court related to only the 2008 rates. See *Frisbie Memorial Hospital et al. v. Toumpas* and *Frisbie Memorial Hospital et al. v. Sebelius*.

Dube, et al. v. Governor Margaret Wood Hassan (formerly *United States Department of Justice's Investigation of the State's Mental Health Services Delivery System*). On December 19, 2013, the parties reached a settlement. A hearing on the settlement was held on February 12, 2014, and the Court approved the settlement agreement at the hearing. The parties agreed to dismiss the appeal to the First Circuit and matter was dismissed by the First Circuit on March 14, 2014. The settlement includes new and additional community-based services for individuals with serious mental illness. The estimated increase in general fund expenditures for fiscal years 2014-2015 is approximately $6 million. In fiscal years 2016-2017, the expected increase in general fund expenditures is approximately $23.7 million. The State has also agreed to pay the plaintiffs $2.4 million for legal fees and expenses. Funding for the additional services was requested in HB 1635 which is currently pending before the legislature. See *STATE FINANCES – Operating Budget Fiscal Years 2014 and 2015* above.

Catholic Medical Center et al v. DRA. In the Northeast Rehab case, the trial court ruled on February 7, 2014 that the portion of the tax related to outpatient hospital services was unconstitutional. This decision is expected to be appealed to the New Hampshire Supreme Court. It is not possible to predict the outcome of these cases at this time.

Aranosian Oil Co., et al. v. State. Plaintiffs allege damages of approximately $5 million. Trial has been rescheduled to April 28, 2014. It is not possible to predict the outcome of this case at this time.

White Mountain Communications Co. v. New Hampshire Department of Administrative Services, et al. The plaintiff and their surety made a combined demand of approximately $1.3 million and later amended the complaint to add direct claims against the surety. In light of the claims added against the surety, the July 2014 trial date has been continued. No new trial date has been set. It is not possible to predict the outcome of this case at this time.

Law Warehouses, Inc. v. New Hampshire State Liquor Commission. The Supreme Court denied LWI's petition for original jurisdiction. NHSLC filed a motion for summary judgment on January 31, 2014. NHSLC also filed a motion to continue trial until November 2014. LWI filed a partial objection requesting trial to be continued until July 2014. Discovery in the trial court is ongoing. It is not possible to predict the outcome of this case at this time.

TLT Construction Corp. The parties continue to work on resolving claims regarding missing and defective steel.

Wallace et al. v. State of NH DHHS. Oral argument on the parties' cross-motions for summary judgment is scheduled for April 4, 2014. It is not possible to predict the outcome of this case at this time.

Frisbie Memorial Hospital et al. v. Toumpas. Six hospitals, Frisbie, Wentworth-Douglas, Exeter, LRGH, Southern NH, and St. Joseph's, filed suit on October 10, 2013 in Strafford Superior Court against DHHS claiming that the 2008 rate reductions to inpatient and outpatient hospital rates are void due to lack of proper notice, for failure to submit a state plan amendment ("SPA"), and for failure to provide opportunity for comments before the changes were made. The plaintiffs claim they are entitled to payment at higher rates under the existing state plan language for the period July 1, 2008 to November 19, 2010 (the effective date of the SPA approved by CMS). The plaintiffs assert damages of approximately twenty million dollars. A motion to dismiss has been filed on behalf of the State. Oral argument on the State's motion to dismiss is scheduled for March 28, 2014. It is not possible to predict the outcome of this case at this time.

Frisbie Memorial Hospital et al. v. Sebelius. Six hospitals, Frisbie, Wentworth-Douglas, Exeter, LRGH, Southern NH, and St. Joseph's, filed suit on October 10, 2013 in federal court in an Administrative Procedures Act challenge to CMS's approval of two SPAs submitted in 2010 that authorized the State to add the current 2008 rates for inpatient and outpatient care. The plaintiffs allege that the notice of these proposed SPAs did not state that these rates would be embedded in these SPAs. The State is not a defendant in this lawsuit. These SPAs, however, are important to the State and the State will seek permission to intervene. If the plaintiffs are successful, additional claims would likely be made against the State for the period from November 2010 until March 20, 2012. The court granted the State's motion to intervene as an interested party. It is not possible to predict the outcome of this case at this time.

FINANCIAL STATEMENTS

Fiscal Year 2013. The State received an unqualified auditor's opinion on its financial statements for the fiscal year ended June 30, 2013. These statements were distributed on December 31, 2013 in compliance with legally mandated filing requirements. The State's financial statements for the fiscal year ended June 30, 2013 and the report of the State's independent auditors with respect thereto have been filed with the Municipal Securities Rulemaking Board under Securities and Exchange Commission Rule 15c2-12. The audited financial statements can be viewed in their entirety at *http://admin.state.nh.us/accounting/annual_financial_reports.asp*.

The fiscal year 2013 management letter from KPMG LLP ("KPMG"), the State's independent auditor is expected to be publicly released by the joint legislative Fiscal Committee in April 2014. While internal control weaknesses will likely be identified in the Statewide management letter, the State believes none rise to the level of material weakness.

Neither the State's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

KPMG has not been engaged to perform and has not performed, since the date of its report referenced herein, any procedures on the financial statements addressed in that report. KPMG has also not performed any procedures relating to this Supplement.

March 27, 2014

THE STATE OF NEW HAMPSHIRE