

# New Hampshire School Boards Association Legislative Bulletin March 13, 2007

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## ***An Important Issue for School Boards Hits the Legislature this Week***

### **RETIREMENT!**

#### **A Quick Review:**

The NH Retirement System (NHRS) is a defined benefit program providing pension benefits to employees and teachers (Group I), and firefighters and police officers (Group II). In the year ending June 30, 2005, there were 51,000 active members and 19,000 retired members: more than \$329 million in benefits were paid that year. While the past legislative session focused on the disappearing health insurance subsidy from the special account, we now know that the retirement system is only funded at approximately 60% of its pension obligations. The lower return on investments during the beginning of the decade, changing demographics, and funding for COLAs and health care subsidies from the special account are the primary reasons. Employee contribution rates are defined in statute: Group I, including teachers, pays 5% and Group II pays 9.3%. Employer (school district) contribution rates are set for the biennium by the NHRS Board of Trustees based upon actuarial valuations and forecasts. The current rates of 6.81% and 5.70% for employees and teachers in Group I represented more than a 40% increase over the rate paid for teachers in fiscal years '04 and '05. Employer rates will increase again this July to 8.74% and 8.93% respectively for employees and teachers for the next two fiscal years, a 56% increase for teachers. Local employer budgets are responsible for 65% of the rate for teachers, firefighters and police; the state pays 35%. Employers (school districts) pay 100% of the contribution rate for an employee.

Not only local budgets are impacted by these rates, but the state budget as well. Local governmental entities and the state are significantly impacted since current law requires employer rates to change, as necessary, to maintain the funded ratio of assets to liabilities. Restoring the funding ratio to 90+% over the next 15 years requires employer rates to double *if no changes are made*. NHSBA participated in an employee/employer 'working group' that focused on understanding the problems facing the retirement system. Extensive time was invested during the summer and fall to understand the problems and consider possible solutions.

#### **What's Next:**

Several bills relating to retirement are being considered by the House Executive Departments & Administration (ED&A) Committee. These proposals include changing to a defined contribution plan, eliminating the special account, excluding extra pay from earnable compensation when calculating retirement benefits, repealing the option to purchase nonqualified service, and placing a management representative on the board of trustees.

While one or more of these proposals may seem desirable, a more comprehensive solution aimed at preserving the fiscal integrity of the pension fund itself is desired. The above-mentioned working group, with the help and guidance of the Federal Mediation & Conciliation Service, held significant and frank discussions about the need for change. The length of time working together allowed for the development of trust, not only within the group but also with legislators, and resulted in a "package" agreement to be submitted to legislators.

### **Working Group Recommendations:**

The "package" submitted by the working group to the House Executive Departments and Administration (ED&A) Committee has three specific goals: 1) Restore the NHRS's fiscal integrity in order to insure that current benefits will continue to existing retirees and that current employees will receive the benefits substantially promised them in the present plan design; 2) Insure that the NHRS's fiscal integrity does not deteriorate again in the future; and 3) Restore the NHRS's credibility with the public responsible for paying the costs incurred. The recommendations consist of the following components:

1. Keep a defined benefit plan. Changing to a defined contribution plan will result in higher rates for employers.
2. Adopt the Entry Age Normal Method of calculating benefits. The current Open Group Aggregate Method is not designed to fund benefits over the lifetime of the members and does not accurately reflect the long-term costs.
3. Recommend a 30-year amortization of the unfunded accrued liability. This will dampen employer rates compared to a more aggressive schedule.
4. Include a 2% COLA in the base annuity rate. Providing this adjustment in the base may reduce future pressures to constantly add benefits.
5. Eliminate the Special Account, but create a Retirement Stabilization Account, into which the remaining Special Account moneys will be deposited. The Stabilization Account would only be funded when two conditions are met: 1) the annuity fund reaches 80% funding, and 2) any investment returns over a 10.5% rate of return. Both conditions must be met before any funds would be directed to the Stabilization Account.
6. Recommend to the NHRS Board of Trustees that the assumed rate of return be kept at 8.5%.
7. The July 1, 2008 contribution rates will be considered the "floor" for future rates. Group I employees will pay an additional 2%, increasing to 7%, and Group II employees will pay an additional 3.7%, increasing to 13%. These rate increases reflect a 40% increase in employee contributions to share in the added costs.
8. Change the calculation of the annuity so that it is based on the average 5 highest years of service rather than the current three, and cap the annuity at 100% of the member's base salary.
9. Repeal the opportunity to purchase up to 5 years of non-qualified service credit, and reinstate the additional contribution option under its original terms except the provision allowing for its withdrawal. The non-qualified service credit has had unintended consequences and created a drain on future pension benefit obligations of NHRS.
10. Employee and employer groups will both support maintenance of the State's 35% share of the employer costs for teachers, fire and police. This is important since

the State will be under pressure in the budget to fund retirement as well as other priorities.

11. Eliminate the need to maintain a minimum balance of a 5% COLA for 3 years in the Special Account. This will no longer be necessary with the elimination of this account and 2% COLA in the base rate.
12. Change the composition of the NHRS Board of Trustees to include one management member, nominated by the Local Government Center, and recommend that the Chair be a non-voting member except when required to break a tie vote of the Board.

Finally, the Working Group members recommend that a Phase II to this process be required, i.e. the continuation of discussions and a report back to the legislature within 12 months regarding the potential to include a health component to retirement, such as a health savings account, as well as the potential recommendation of additional changes to the benefit structure of the NHRS.

**ACTION ITEM: Concerns with retirement system rates and impacts on local school district budgets, as well as comments on this comprehensive proposal addressing the many issues associated with NHRS, may be directed to members of the ED&A Committee, especially Rep. Anne-Marie Irwin, Chair, Rep. Laurie Harding, Vice Chair, and Ricia McMahon at <http://gencourt.state.nh.us/ns/billstatus/commdetails.asp?txtcommcode=H07>.**

*Make sure your local representatives know where their school board stands on important legislative proposals. Keep your legislators informed and aware. **Remember that you, through NHSBA, are the only locally elected officials that "speak" exclusively for public education in NH.** Need some help?*

Learn how you can be involved in NHSBA'S Legislative Advocacy Network and make your board's voice heard. **Call NHSBA (800-272-0653) or (603-228-2061) today** and be part of the team. For more information or details, or for information on specific legislation, please call Dean Michener at 603-228-2061.

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