



TESTIMONY PRESENTED TO THE
HOUSE EXECUTIVE DEPARTMENTS AND ADMINISTRATION
COMMITTEE

IN SUPPORT OF HB 1645

FEBRUARY 14, 2008

BY

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Good morning Madam Chair and members of the Committee. My name is Dean Michener and I am the Director of Governmental Affairs for the NH School Boards Association. In that capacity, I also served as a member, representing public employers, on the *Commission to Study the Long Term Viability of the NH Retirement System*. I appreciate the opportunity to be here today and share the School Board Association's strong support for HB 1645, which makes many much needed revisions to the administration and operation of our state's retirement system. In addition, I would like to thank the sponsors of this bill for their work on incorporating many suggestions made in the Final Report of the *Commission*.

HB 1645 makes several needed adjustments to the NH Retirement System. Most noteworthy is a change to the governing board and its operation (Sections 17, 19, 20). Over the past 20 years, the funding ratio of NHRS fell from well over 100% to under 60%. This steady decline signals the need for an overall change to the governance structure. The change is not meant to cast aspersions upon those who have served on the Board in the past, but to recognize that a public pension system of \$6 billion is extremely complex. Its oversight requires expertise in, and knowledge of, investments and actuarial determinations that are critical to the health of the pension fund. Studies have shown a negative correlation between fund earnings and the presence of active members on boards. HB 1645 creates a structure where NHRS members are a minority, legislative representation is retained and people with qualified expertise are able to serve on the Board. Furthermore, the recommended committee structure complements this process by adding non-board members with subject matter expertise while still operating at the discretion of the Board.

Sections 5-14 of the bill address an important, and complicated, issue: the medical subsidy benefit. Freezing the benefit amount and ending the annual 8% increases helps control expenditures while still incorporating a biennial review of the medical benefit subsidy rate. In addition, the bill recognizes and attempts to address the original intent of the medical subsidy program, specifically that the benefit was never intended to be a cost for employers. Reimbursement from the special account to the pension fund for the employer contributions to the medical sub-trust guaranteed that there was no additional cost for employers. That reimbursement has ceased, resulting in a new additional cost being passed on to employers.

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This new additional cost is reflected in proposed rates to be paid by employers. HB 1645 attempts to address this new unfunded mandate by transferring \$250 million from the special account to the pension fund. While we applaud this intent and effort, we recognize that the amount is not enough to reduce employer rates down to a level equal to that of the normal contribution combined with the rate for the unfunded accrued liability. Additional money directed to the pension fund well in excess of \$300 million is needed, and it is our hope that this issue will be addressed during work sessions on the bill. The commission being established to study and make recommendations on post-employment medical expenses is a good vehicle to address these issues for our state's future retirees.

HB 1645 makes additional changes that limit further expenses and reflect the reality of today's work place. While there are many potential ways for employees to "game the system" and take severance packages, retirement incentives or buy-out provisions, there is no possible justification for an individual to retire at an annual pension exceeding the amount earned in base salary. The proposal before you does not allow a person's benefit to exceed 100% of their final year full base rate of compensation. Furthermore, prior to 1974 the law required an individual's Average Final Compensation to be calculated based on the five highest years of service. HB 1645 restores this practice as a better reflection of an employee's service career, smoothing out those measures of earnings and reducing any spiking that can occur in the AFC calculation.

The final comment I would like to make is in support of the Decennial Retirement Commission established in Section 38 of the bill. I had the privilege to serve on last year's Commission created by HB 876. It was a rewarding experience and provided much insight and clarity to many complex issues associated with the pension fund. Ensuring such a review again in 2017 is prudent and will once again allow a comprehensive analysis of the NH Retirement System's health ten years from now.

Thank you again for the opportunity to share these comments and offer general support for this significant legislation.