



**NOTES for Verbal Testimony
Offering NHSBA Support for HB 1645
Senate ED&A Committee – Medical Subsidy
Wednesday, April 16, 2008**

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Last week's focus was on "who pays for retirement" and "how old to qualify" – topics for which we did not have specific testimony. However, many comments were offered beyond the scope of that subject, and while I will focus on "Medical Benefits" today, please allow me some latitude to go beyond this specific topic. I say this because last week you indicated a need to understand the frame of mind, or perspective, that formed the opinions of many who testified. I would like to share with you the perspective and opinions of school board members who struggle daily with budgetary issues and oversight of taxpayer burden as they experience increases in local costs that are beyond their control. Retirement costs are part of those expenses, and result from a complex interaction of related issues that all form the basis of our concerns.

First, I would like to briefly respond to comments made last week claiming employers need to "pay their share" and pay the \$2.7 billion unfunded liability. Employers, through their local taxpayers, HAVE paid their share. NEVER, until last year, did we have a voice on the Board and in setting contribution rates. We have always paid what the employee dominated Board has required us to pay. And it was we the employers, who stepped up and came to the legislature last year, supporting your work in HB 653. We had this discussion then: the funding methodology and UAAL were addressed last year with HB 653. Now there are again some who want you to slow down and kill 1645, to wait and do nothing. But what does doing nothing mean?

For school districts, it means an increase in our contribution rate for teachers of over 50% and an increase of over 47% for our employees. The employer rate for teachers will jump from 8.93% to 13.47%. And what primarily accounts for this increase (38% of the increase in rate for teachers and 37% of the increase in rate for employees)? It goes to fund the medical subsidy, a non-pension benefit that employers NEVER were supposed to pay for. But somehow the state now believes it can just add this cost to the employer rate.

Executive Director

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We understand employee concerns and the desire to maintain as well as extend this additional non-pension benefit that originally relied on the Special Account. The Special Account was created in 1983, receiving money from investment returns when times were good and profits were made from our investments; in effect, giving away profits from good years that should have been used to offset losses from bad years. The Medical Subsidy was then established in 1988 for Group II, and in 1999 and 2000 for teachers and Group I employees, respectively. Funding for this additional benefit was always intended to come from the Special Account; specific regulations required a direct employer contribution, but the Special Account always reimbursed this same amount. Employers were never intended to cover this cost, yet now that legal advice has been offered regarding compliance with regulations, administrative action of the NHRS Board suddenly shifts this financial burden onto the public employers. Projected employer contribution rates now contain a new cost item, a rate to fund the medical subsidy. HB 1645 attempts to address this problem by transferring \$250 million from the Special Account back into the pension fund. This transfer of funds into the corpus of the pension fund will help moderate the increases in employer rates, and we very much appreciate the gesture, but it simply is not enough to off-set the increase in our rates due to the additional requirement that we fund the medical subsidy. The contribution rate for our teachers increases to 10.10% to cover the Normal Cost and the UAAL. With passage of HB 1645, including the \$250 million transfer AND the new cost of the medical subsidy, our rate will be 10.72%, still almost 2/3 of a percent more than we should be paying. And those rates do not include costs associated with the recommendation before the Senate tomorrow on HB 1643, extending the deadline for eligible retirees to retire, which NHRS estimates will add another \$1.5 million annually.

We also can only speculate on the possibility of any penalty or transfer of assets from the medical subtrust that may be required due to potential compliance issues based on a review in the near future. In order to protect the medical subsidy for employees without placing any new obligation on employers, more than \$350 million needs to be transferred from the Special Account back into the pension fund.