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Setting the stage for healthy debate on the state retirement system

By Dick Ingram, NHRS Executive Director

Earlier this week, the New Hampshire Retirement System (NHRS) released information describing in some detail the annual pension benefits paid to our retired members. We are pleased to see that this has resulted in the beginning of a thoughtful public discussion of what the information implies about the status of the retirement system and how it works. As this discussion unfolds, here are some points to keep in mind.

The first thing is to understand the role of the retirement system. NHRS is not “the State,” nor is it an Executive Branch agency. NHRS is an independent fiduciary governed by a board of trustees. Its role is to administer the retirement benefits created by the Legislature in NH RSA 100-A. The retirement system does not define benefits or how to calculate them. It does not advocate for or against particular benefit changes in the Legislature. The retirement system does provide factual information, analysis, and advice to the Legislature as they deliberate on these issues.

The structure of benefits – such as how much of members’ income is “pensionable,” how long they have to work to earn a full pension, etc. – was prescribed by the Legislature in years past. The role of NHRS is to ensure that adequate funds are available to pay these benefits. In fact, that is an obligation explicitly stated in the New Hampshire Constitution (Article 36-a).

When looking at the list of individual benefit amounts – which is available on the home page of www.nhrs.org under the “Notices” section – it is important to keep the higher benefit amounts in context. Those benefit amounts are the exceptions, not the rule. In fact, the average annual pension amount is approximately \$18,000, with nearly 60 percent of NHRS retirees receiving less than that. The top 500 benefit recipients, a little more than 2 percent of all pensioners, receive annual payments of approximately \$55,000 and up. The other 23,000 pensioners receive lesser amounts.

While some have said the intent of the plan was to calculate benefits only on base pay, the law includes other sources of income as pensionable earnings, such as overtime, sick time, detail pay, and other types of earnings. The figures NHRS uses to calculate a retiree’s pension are not an option of the employer or the retirement system, they are defined by law.

The high-end pension benefits making headlines are not the result of special deals or treatment. NHRS does not have the ability to “cut deals” for individual members. People with higher pensions earned them under current law and as a result of how their particular employer managed their work and pay.

This direct control that individual employers have on the amount of end-of-career income a member can earn is often overlooked in the debate over whether the retirement system is “working.”

Many people are aware that NHRS is not currently funded at the level that sound actuarial practice calls for. Some point to the high-end benefits as contributing to the underfunding. This is not true. Since the member and employer contribution rates are assessed on a member’s total pensionable income, those receiving higher benefits paid more into the system. The contribution rates are designed to fully capture the expected lifetime cost of providing a pension benefit, no matter the level of that benefit.

Employer rates did not always fully capture pension benefit costs, however. NHRS is currently 58 percent funded not because of benefits paid out, but because of legislative policy decisions in years past that led to employer contributions being too low, often significantly lower than the rates paid by members. In addition, nearly \$1 billion in investment earnings was diverted from the pension trust over a number of years to pay for other benefits under a gain-sharing arrangement established in the law many years ago. If the policy decisions affecting employer contributions had been different, or the \$1 billion in investment gains not diverted, today’s discussion would be much different.

While the total pension costs for the next biennium will approximate 19 percent of payroll when averaged across the four member classifications (Employee, Teacher, Police, Fire), the expected cost of providing these benefits is approximately 11 percent. (On average, members pay half, or a bit more, of that 11 percent cost.) Most of the remaining 8 percent is paying for the mistakes of the past. It is easy to see from these numbers that the financial pains of today are not necessarily the result of the costs of today.

Changes to benefits and plan design are a worthy topic of debate. That debate may lead to changes that reduce the cost pressures we all are working to manage. But we can’t escape the consequences of the past. In recent years, the Legislature and the NHRS trustees have addressed these consequences head on and instituted many of the changes necessary to strengthen the retirement system.

While knowing who earns the highest pension can be a fun fact, the high-end benefits are not the reason for the current funding challenges. Focusing on the outliers can make the real debate more difficult, because doing so distracts from the harder truths.

Dick Ingram is the Executive Director of the New Hampshire Retirement System.

Note: A photo of NHRS Executive Director Dick Ingram is available upon request.

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