

**STATE OF NEW HAMPSHIRE
OFFICE OF LEGISLATIVE BUDGET ASSISTANT
FISCAL NOTE WORKSHEET**

Date Sent to Agency: 11/10/11

LSR #: 12-2876.1

Agency: New Hampshire Retirement System

Bill #: _____

Due to LBAO: 11/28/11

Amendment #(s): _____

Correction to prior response? (Y/N): Y

State Fund(s) Affected:

General: X

Federal: _____

Other: X

| | FIRST BIENNIUM | | SECOND BIENNIUM | | FY 2016 |
|-------------------|----------------|---------|-----------------|----------------|----------------|
| | FY 2012 | FY 2013 | FY 2014 | FY 2015 | |
| State Revenue | -0- | -0- | -0- | -0- | -0- |
| State Expenditure | -0- | -0- | Indeterminable | Indeterminable | Indeterminable |
| Net State Impact | -0- | -0- | Indeterminable | Indeterminable | Indeterminable |

| | | | | | |
|--------------------|-----|-----|----------------|----------------|----------------|
| County Revenue | -0- | -0- | -0- | -0- | -0- |
| County Expenditure | -0- | -0- | Indeterminable | Indeterminable | Indeterminable |
| Net County Impact | -0- | -0- | Indeterminable | Indeterminable | Indeterminable |

| | | | | | |
|-------------------|-----|-----|----------------|----------------|----------------|
| Local Revenue | -0- | -0- | -0- | -0- | -0- |
| Local Expenditure | -0- | -0- | Indeterminable | Indeterminable | Indeterminable |
| Net Local Impact | -0- | -0- | Indeterminable | Indeterminable | Indeterminable |

- NOTE: (1) List only the amount of change in the appropriate column.
 (2) Place all negative numbers in parenthesis.
 (3) You may replicate this worksheet.
 (4) Refer to Guidelines for Fiscal Note Worksheets for further information.

- A) **ASSUMPTIONS:** Explain how estimate was derived. Describe costs that can be absorbed without additional funding. If no estimate can be prepared, **explain why in detail**. If no fiscal impact, **explain why in detail**.

This LSR establishes a defined contribution (DC) retirement plan for public employees, requiring participation for all new employees hired on or after November 1, 2012, by employers that participate in the New Hampshire Retirement System (NHRS). This LSR also requires the issuance of a request for proposals for plan administration.

The NHRS' consulting actuary determined the following changes to the FY 2013-2016 employer contributions using an assumed rate of interest of 7.75% and assumed rate of wage inflation of 3.75%. See the consulting actuary's analysis on page 4 or their letter dated November 29, 2011 attached.

| | FY 2013 | FY 2014 | FY 2015 | FY 2016 |
|----------------|--------------|----------------|----------------|----------------|
| Employees: | | | | |
| State | \$ (47,091) | \$ (111,207) | \$ (268,242) | \$ (394,417) |
| Political subs | \$ (51,083) | \$ (120,634) | \$ (290,981) | \$ (427,851) |
| Teachers | \$(529,502) | \$ (1,306,653) | \$ (2,532,267) | \$ (3,538,554) |
| Police | | | | |
| State | \$ 111,891 | \$ 275,567 | \$ 280,626 | \$ 264,150 |
| Political subs | \$ 290,197 | \$ 714,703 | \$ 727,823 | \$ 685,093 |
| Fire | | | | |
| State | \$ 5,833 | \$ 15,016 | \$ 19,887 | \$ 23,367 |
| Political subs | \$ 162,719 | \$ 418,928 | \$ 554,804 | \$ 651,900 |
| Total | \$ (57,036) | \$ (114,280) | \$ (1,508,350) | \$ (2,736,312) |
| State | \$ 70,633 | \$ 179,376 | \$ 32,271 | \$ (106,900) |
| Political subs | \$ (127,669) | \$ (293,656) | \$ (1,540,621) | \$ (2,629,412) |

The present value of the increase to the unfunded actuarial accrued liability (UAAL) is projected to be \$237 million as of June 30, 2011.

In addition to the above employer contribution changes, there are several sections of this LSR that have an indeterminable fiscal impact on State, County and Local expenditures including:

- Employer costs for Long-Term Disability and Life Insurance Benefits.
- Plan Administration and selection of an administrator through an RFP process including three alternatives for plan management and administration.

- B) **METHOD:** Show calculations used to determine fiscal impact. **Calculations must agree with and explain totals on first page.**

C) **ESTIMATED FISCAL IMPACT** (from A and B): **Estimated Fiscal Impact must agree with the totals on first page.**

D) **ADDITIONAL OR LONG-RANGE EFFECTS:**

E) **TECHNICAL OR MECHANICAL DEFECTS:** Note any conflicts with existing law. Do not comment on the merits of the legislation.

The LSR lacks the specificity which is required to constitute a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code.

This analysis does not address the funding of the medical subsidy benefits. We assumed the employer contributions for the medical subsidy benefits would be assessed to both the DB and DC member payroll.

F) **OTHER COMMENTS:** Include tax variables, federal mandates, etc.

We believe the intent of the LSR was to keep the employer rates the same for the current defined benefit (DB) plan and the DC plan. However, this LSR is written so that the UAAL will contain a component equal to the cost of premium contributions for long-term disability and life insurance.

Under this LSR, employers may be required to make continued payments toward unfunded DB benefits long after all DB employees have left their employment. Different employers will reach a point of having no DB members at different times. However, it is possible that many employers will reach a point of having no DB members before the scheduled amortization of the UAAL is complete.

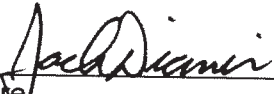
Under this LSR, the estimated employer contribution toward the UAAL is lower for Group I members and higher for Group II. With no change in these estimated employer rates, the amortization period will be longer than 26 years for Group I and less than 26 years for Group II employers. The estimated present value of the shortfall of contributions as of June 30, 2011 is \$237 million. This shortfall is expected to be made up by increasing employer DB contribution rates over time.

The actuary believes that despite the fact that the annual contribution toward the UAAL will be made on an open group, the current rules under GASB 25/27 do not permit continued use of a level percent of payroll amortization approach in the determination of the Annual Required Contribution (ARC). For purposes of determining the ARC, the actuary believes the closed NHRS DB Plan will be required to use a level dollar method or a method that reflects the declining payroll of the closed active population of NHRS. NHRS will report contributions less than 100% of the ARC to the extent that future actual contributions (based on a level percent of pay amortization) are lower than the calculated ARC (based on a level dollar approach). It is projected that employer contributions will be at 76% of the ARC and will increase employer contribution rates by a total of 4.12% or \$116 million.

There may be a conflict between the plan administration language in the LSR compared to RSA 100-A:14 and 15 that currently provide that the NHRS Board administers the DB plan, and the Board and Independent Investment Committee manage the assets of the DB plan.

This LSR is currently under review by the NHRS fiduciary counsel.

AGENCY REPRESENTATIVE PREPARING WORKSHEET:

Jack Dianis 
Name/Signature

Director of Finance, NHRS, 410-3656
Title, Agency and Phone Number

12/01/11
Date

**New Hampshire Retirement System
June 30, 2011 Pension Valuation**

**Impact on FY 2014 contribution rates if based on level dollar amortization
Illustrative example in conjunction with LSR 12-2876.1**

| | June 30, 2011 Valuation Results - Level Percent Amortization | | | | |
|-----------------------------|--|----------------|---------------|---------------|----------------|
| | Employees | Teachers | Police | Fire | Total |
| Employer Normal Cost | 2.48% | 2.01% | 5.90% | 7.38% | 2.86% |
| UAAL Amortization | 7.96% | 9.95% | 15.45% | 16.41% | 9.92% |
| Total Employer Contribution | 10.44% | 11.96% | 21.35% | 23.79% | 12.78% |
| Projected Dollar Amount | \$ 129,866,773 | \$ 138,424,507 | \$ 61,874,869 | \$ 28,700,765 | \$ 358,866,913 |

| | Alternate June 30, 2011 Valuation Results - Level Dollar Amortization | | | | |
|--|---|----------------|---------------|---------------|----------------|
| | Employees | Teachers | Police | Fire | Total |
| Employer Normal Cost | 2.48% | 2.01% | 5.90% | 7.38% | 2.86% |
| UAAL Amortization | 11.28% | 14.09% | 21.89% | 23.24% | 14.04% |
| Total Employer Contribution | 13.76% | 16.10% | 27.79% | 30.62% | 16.90% |
| Increase in rate as a percent of payroll | 3.32% | 4.14% | 6.44% | 6.83% | 4.12% |
| Projected Dollar Amount | \$ 171,165,402 | \$ 186,340,682 | \$ 80,538,764 | \$ 36,940,623 | \$ 474,985,470 |
| Projected Dollar Increase | \$ 41,298,629 | \$ 47,916,175 | \$ 18,663,895 | \$ 8,239,858 | \$ 116,118,557 |
| Level Percent/Level Dollar | 76% | 74% | 77% | 78% | 76% |

(Representative of statutory contribution as a percent of level dollar ARC).