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NHRS Frequently Asked Questions Concerning House Bill 363 (Non-Qualified Group II Service purchase for eligible Group II members)

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Below are answers to some frequently asked questions concerning Senate Bill 363 (SB 363), which will allow active, contributing members who commenced Group II (Police and Fire) service between January 1, 2002, and June 30, 2011, to purchase Non-Qualified Group II Service time in order to reduce the minimum age and service requirements for retirement that were enacted in 2011.

The bill was signed by the Governor on June 7, 2022, and took effect August 6, 2022.

The New Hampshire Retirement System (NHRS, the retirement system) recognizes that there may be questions not addressed in this FAQ. Members with additional questions may send them to public_relations@nhrs.org. Additional general interest questions and answers will be added to the FAQ as needed.

Who does the bill affect?

Active Group II members who commenced Group II (Police and Fire) service between January 1, 2002, and June 30, 2011, and are subject to the transition provisions contained in RSA 100-A:5, II. (d), which governs (1) the minimum years of service required for service retirement, (2) the minimum age for service retirement, and (3) the multiplier used to calculate the retirement benefit.

Where a member falls on the transition table below is based on the member's creditable service as of January 1, 2012.

| Creditable Service as of 1/1/12 | Minimum Age | Minimum Service | Benefit Multiplier |
|-----------------------------------|-------------|-----------------|--------------------|
| At least 8 but less than 10 years | 46 | 21 | 2.4% |
| At least 6 but less than 8 years | 47 | 22 | 2.3% |
| At least 4 but less than 6 years | 48 | 23 | 2.2% |
| Less than 4 years | 49 | 24 | 2.1% |

What does the bill do?

SB 363 allows eligible, active Group II members to purchase not less than one year nor more than four years of Non-Qualified Group II Service in order to reduce his or her minimum age and/or service to become eligible for service retirement to the previous minimum age of 45 with a minimum of 20 years of creditable service worked.

Service may only be purchased in one-year increments. The purchase must be completed while the member is still in active service.

The benefit multiplier for each year purchased is 2.5%, regardless of the benefit multiplier in effect for the member's years worked, which does not change.

How much Non-Qualified Group II Service time can I buy?

The number of years you can buy depends on where you are on the transition table above:

- Members with at least 8 years but less than 10 years of service as of January 1, 2012, may purchase 1 year.
- Members with at least 6 years but less than 8 years of service as of January 1, 2012, may purchase up to 2 years.
- Members with at least 4 years but less than 6 years of service as of January 1, 2012, may purchase up to 3 years.
- Members with less than 4 years of service as of January 1, 2012, may purchase up to 4 years.

How do I apply to purchase Non-Qualified Group II Service?

Members must submit a form to NHRS requesting a cost calculation. The form is posted on the member forms page: <https://www.nhrs.org/forms>

How does the Non-Qualified Group II Service purchase affect my pension calculation?

Pension benefits are calculated based on three factors: years of creditable service, average final compensation (AFC) and a benefit multiplier that is different for Group II members based on the amount of creditable service they had prior to Jan. 1, 2012.

Service credit purchases are included in the creditable service component of a pension calculation.

Such purchases are not included in the average final compensation component (the average of a member's highest-paid years of membership service) of the pension calculation.

The benefit multiplier for Non-Qualified Group II Service is 2.5%, regardless of what the member's benefit factor is for other years worked.

How much will it cost to purchase Non-Qualified Group II Service?

The full actuarial cost is member-specific and is based on a number of factors, including your age, how close to retirement you are, and how many years you purchase. As a general rule of thumb, the purchase will be more expensive for a member who will be immediately eligible to retire upon completion of the service purchase than for a member who would still need to work additional years to attain service retirement eligibility.

How can I pay for the service purchase?

Payment options for purchasing service credit include a payment made directly by the member with after-tax dollars and/or a trustee-to-trustee transfer from a section 403(b) tax-sheltered annuity and/or a section 457 governmental plan. The amount paid by the member is credited to the member's accumulated contributions.

When is the service added to my record?

Service is not credited until the cost is paid in full to NHRS. Cost calculations must be computed and approved by NHRS; members may not make a service credit purchase without an approved cost calculation provided by NHRS. Note: The purchase must be completed while the member is in active service.

How long do I have to complete the purchase?

The cost estimate for the purchase is valid for 60 days. If the purchase is not completed by then, the member would have to submit a new form to request a revised cost calculation. Members are limited to two purchase requests per calendar year.

Can I pay for the purchase in installments?

No.

What compensation is included in the service credit calculation?

The calculation is based on the most recent 12 months of earnable compensation reported to NHRS by the employer. This includes base compensation and compensation over base pay.

If I am eligible to buy more than one year of Non-Qualified Group II Service, can I buy one year now and additional year(s) later?

Yes. Members who are eligible to buy multiple years can buy one year at a time, if they prefer.

What happens if I need less than a year of service to attain eligibility to retire?

The law states that the minimum purchase is for one year.

Do I have to retire right away if I buy Non-Qualified Group II Service?

No. Purchasing this service does not force the member to retire at 45/20. Members can buy the allowable years and still work for as long as they want.

Can I apply to purchase service and apply for retirement at the same time?

Yes, however, if the date you wish to retire on is contingent on the purchase of Non-Qualified Group II Service time, you must complete the purchase to be eligible to retire on that date. As noted above, the purchase must be completed while you are in active service.

Does purchasing Non-Qualified Group II Service affect my eligibility for retiree medical subsidy benefits?

No. Your eligibility for retiree insurance or the medical subsidy will not change. Current active Group II members are eligible for the medical subsidy only if they were active on June 30, 2000; eligibility is not based on length of service or age.

I have attained the necessary years of service but have not yet reached age 45. Can I buy service and retire younger than age 45?

No. Members cannot purchase service to retire younger than age 45.

Remember, the minimum age and service for members vested prior to Jan. 1, 2012, is age 45 with a minimum of 20 years of service. SB 363 does not allow anyone to retire with less than those minimum requirements.

I have attained the necessary age, but have not yet reached the minimum service requirement. Can I buy service and retire with less than 20 years worked?

No. Members cannot purchase service to retire with less than 20 years of service worked.

Remember, the minimum age and service for members vested prior to Jan. 1, 2012, is age 45 with a minimum of 20 years of service. SB 363 does not allow anyone to retire with less than those minimum requirements.

I am an inactive member who terminated employment prior to attaining the Group II minimum age and service required to apply for service retirement. Can I purchase Non-Qualified Group II Service?

No. The law says only active members are eligible to purchase Non-Qualified Group II Service. Under RSA 100-A:1, XXXV, "active member" means the member is receiving earnable compensation

I commenced Group II service on or after July 1, 2011. Am I eligible to purchase Non-Qualified Group II Service?

No.

I was vested prior to January 1, 2012. Am I eligible to purchase Non-Qualified Group II Service?

No.

I am an active Group I (Employee and Teacher) member. Am I eligible to purchase Non-Qualified Group II Service?

No.

I am an active Group I member with previous Group II service that commenced between January 1, 2002, and June 30, 2011. Am eligible to purchase Non-Qualified Group II Service?

No. You must be a Group II member at the time of purchase.

I commenced service as a Group I member and later became a Group II member prior to July 1, 2011. Am I eligible to purchase Non-Qualified Group II Service?

Yes, if you are still an active member and were not vested prior to January 1, 2012. Refer to the transition table to see how many years you are eligible to purchase. Note: Members with service in Group I and Group II are considered "split benefits" and the minimum age to collect an unreduced retirement allowance is dependent on the number of years spent in each group. For more information, see: <https://www.nhrs.org/members/benefits/split-benefits>

I commenced service as a Group I member and became a Group II member on or after July 1, 2011. Am I eligible to purchase Non-Qualified Group II Service?

No.

New - What factors are included in the service purchase cost?

The full actuarial cost uses demographic, investment, and economic assumptions applicable at the time of the purchase and is calculated for each member based on their compensation, age, service, and how soon they become eligible for service retirement. Once a member retires, their benefit is locked in and payable for life, regardless of future changes to demographic, investment, and economic conditions.

Most of the purchase cost – about two-thirds on average – is attributable to the fact that the member can begin collecting the pension benefit months or years earlier than he or she is currently able to under the statute. For instance, if a member who was eligible to retire in 2024 at age 46 with 21 years of service purchased one year and

retired in 2023, the member would recoup most of the purchase cost in the first year of retirement through monthly pension benefit payments.

The service purchase cost also accounts for future contributions that will not be paid to NHRS by the member. For instance, NHRS would not receive at least \$24,000 in member contributions if a Group II member making \$70,000 per year purchased three years of non-qualified service and retired earlier. The actual amount would likely be greater, due to wage increases.

These two factors alone account for the lion's share of the purchase cost.

Additionally, a 20% risk premium is part of the calculation of the full actuarial cost to account for variations in investment performance, payroll experience, and changes in actuarial assumptions. The risk premium is an element of the full actuarial cost of the service purchase that is intended to protect against the risk of adverse experience. It is not a separate assessment over and above the full actuarial cost. The risk premium represents the risk the pension trust fund is bearing after a member completes a purchase, which includes longevity risk, future salary increases and investment returns assumptions.

New - Is the risk premium included in the calculation for other types of service purchases?

No. Unlike all other service purchase types, which are available to all eligible members of Group I and Group II at any point in their career, the Group II non-qualified service purchase is targeted to a limited number of active Group II members who commenced service prior to July 1, 2011, and who were not vested prior to January 1, 2012. These members have significantly different demographics than the total membership and the expectation is that these members will purchase this service in order to retire and begin collecting benefits months or years earlier than anticipated under current actuarial funding assumptions.

Put simply, the funding risk associated with members who purchase Non-qualified Group II service is greater than the funding risk for other types of service purchases.

The Board, acting in its capacity as a fiduciary, exercised its discretion to adopt the 20% risk premium, which the actuary stated was reasonable to insulate NHRS from adverse experience and consistent with actuarial standards.

Employers bear the full funding risk for benefits accrued by all members in the ordinary course of employment. Regardless of actual experience, the member's statutorily determined retirement benefit is guaranteed. However, purchasing service is an elective decision entirely up to an individual member, so the risk associated with the purchase is ascribed to the member.

To reiterate, the risk premium is not something over and above the full actuarial cost calculation, it is a component of the calculation.

New - Why can't all eligible members be charged a flat percentage cost to purchase this service?

The full actuarial cost more accurately captures the particular circumstances for each member applying for a purchase. Analysis of the more than 125 cost calculation requests made after the law took effect indicate that the full actuarial cost, on average, is not significantly greater than the contribution-based cost formula as originally proposed in the legislation. However, the full actuarial cost method more accurately captures the cost to individual members.

For someone who can buy a year and become eligible to retire right away or within a matter of months, the cost on a percentage of pay basis is much higher. However, the cost as a percentage of pay for a member who buys three or four years now in order to retire in 2031 instead of 2034 or 2035 is generally less than it would have been under the original bill.

If all the members purchasing non-qualified service paid a flat percentage, then members further away from attaining retirement eligibility would in effect be subsidizing members who are eligible to retire within the next a year or two.

FULL TEXT OF SB 363

AN ACT AN ACT relative to service credit for certain group II retirement eligibility.

171:1 New Paragraph; Retirement System; Creditable Service. Amend RSA 100-A:4 by inserting after paragraph VIII the following new paragraph:

IX. Notwithstanding any provision of this section, a member in active service in the retirement system who commenced group II service between January 1, 2002 and June 30, 2011, shall be entitled to receive credit for not less than one year nor more than 4 years of nonqualified service credit within the meaning of section 415 of the United States Internal Revenue Code of 1986, as amended, upon payment by the member of the full actuarial costs of such credit and upon approval of the board, subject to the following:

(a) Credit shall not be granted until the active member has fully paid for the nonqualified service in a lump sum or by installment payments as permitted by the board. The member's payment shall be credited to the member annuity savings fund. The actuary's statement shall be the full actuarial cost of service credit determined by the actuary based on methods and assumptions recommended by the actuary and approved by the board of trustees.

(b) "Nonqualified service credit" means time that is not otherwise purchasable under this chapter.

(c) Requests concerning the purchase of nonqualified service credit pursuant to this paragraph shall be limited to 2 such requests per member per calendar year.

(d) Members may only purchase as many years as designated for them under RSA 100-A:5, II(d), which will reduce the minimum age or creditable service for a regular service retirement to the previous minimum age of 45 with a minimum of 20 years of creditable service, but only reduced based on the number of years purchased.

(e) Additional creditable service purchased under this paragraph shall not be used as creditable service for the purpose determining eligibility for medical and surgical benefits as a retired employee under RSA 21-I:30, RSA 100-A:52, RSA 100-A:52-a, or RSA 100-A:52-b.

171:2 New Subparagraph; Service Retirement Benefits; Group II Transition Provisions. Amend RSA 100-A:5, II by inserting after subparagraph (d) the following new subparagraph:

(e) Notwithstanding the transition provisions of subparagraph (d), the member may replace the additional years of service required for minimum retirement age with the years of service that are purchased under RSA 100-A:4, IX. Therefore, allowing the member to retire between the age of 45 and 49 depending upon the years of service purchased. The purchased years under RSA 100-A:4, IX shall have an annual multiplier of 2.5 percent regardless of the percentage listed in subparagraph (d).

171:3 Effective Date. This act shall take effect 60 days after its passage.

Approved: June 07, 2022

Effective Date: August 06, 2022

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