

NHRS Bill Brief: HB 1341-FN (as introduced)

Prepared for the House ED&A Committee

Summary: “AN ACT relative to vested status of group II members in the state retirement system.”

Analysis: “This bill changes the application of 2011 amendments to certain group II retirement system provisions to apply to group II members who are in vested status prior to July 1, 2021.”

Sponsors: Rep. S. Pearson, Rock. 6; Rep. Pratt, Rock. 3; Rep. Love, Rock. 6; Rep. Schuett, Merr. 20; Rep. Roy, Rock. 32.

Background

In 2011, significant changes were made to the retirement system in House Bill 2 and other legislation. Benefit provisions for some current members and all future members were changed by amending the definition of Earnable Compensation to eliminate some pay types from the pension calculation; increasing the calculation of Average Final Compensation (AFC) from 3 to 5 years; capping the maximum benefit; increasing the Service Retirement age; and reducing the Group II (police/fire) benefit accrual formula for members who were not vested prior to January 1, 2012.

These changes – which applied to both Group I (employee/teacher) and Group II – essentially created a three-tier benefit structure based on whether a member was:

- vested for a pension benefit prior to January 1, 2012 (Tier A);
- hired prior to July 1, 2011, but not vested by January 1, 2012 (Tier B); or,
- hired on or after July 1, 2011 (Tier C).

These and other changes to RSA 100-A were upheld by the NH Supreme Court in a series of cases decided between 2014-16. In one of those decisions, the Court wrote that there was no “unmistakable intent by the Legislature to contractually bind itself against prospectively changing the terms contained” in the statute and, therefore, the 2011 changes were not unconstitutional.

House Bill 1341, as introduced, would eliminate “Tier B,” for Group II members only. Affected members would be covered under the Group II retirement provisions in effect prior to July 1, 2011.

Financial Considerations

GRS Consulting, the New Hampshire Retirement System’s independent actuary, estimates that this legislation will increase the unfunded accrued actuarial liability (UAAL) by \$141.9 million (AFC changes: \$68.7 million; changes to retirement age, eligibility and benefit multiplier: \$73.2 million)

The proposal would decrease the funded ratio of the retirement system trust by 0.7% (Police plan -2.2%; Fire -1.9%; Employee n/a; Teachers n/a).

FY 2022-24 Projected Costs

	FY 2022	FY 2023	FY 2024
State Expenditures	\$3.99M	\$4.11M	\$4.25M
Local/County Expenditures	\$16.69M	\$17.22M	\$17.80M
Total	\$20.68	\$21.33	\$22.05M

Employer Contribution Rates

Contribution rates as a percentage of covered payroll shown below for the 2022-23 biennium are estimates based on the June 30, 2017, actuarial valuation, the most recent rate-setting valuation available. Actual FY 22-23 rates will be certified by the NHRS Board of Trustees in September and will be based on the June 30, 2019, actuarial valuation.

	Police	Fire
Current FY 2020-2021 Rates	24.77%	26.43%

Estimated change to the FY 2022-23 Rates due to HB 1341

AFC definition change	1.90%	2.18%
Eligibility Requirements change	2.34%	2.09%
Total Increase	4.24%	4.27%
Percentage change from 20-21 rates	+17.1%	+16.2%

Note: Rates shown represent the percentage of covered payroll paid by employer; pension rate only shown, medical subsidy rate (3.66%) not included.

Technical Considerations

NHRS believes the changes to the AFC provision contained in the bill, as introduced, includes Group I members hired prior to July 1, 2011, who were not vested as of January 1, 2012. This issue was also identified by the actuary. NHRS instructed the actuary to assume that the proposed changes are for Group II members only for the purposes of the actuarial analysis. If the bill is adopted as currently written, the costs would be higher than shown.

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Note: The content provided above is for informational purposes; NHRS neither supports nor opposes this legislation.