

## **NHRS Bill Brief: HB 616-FN**

*Prepared for The Senate ED&A Committee*

**Summary:** “AN ACT relative to a cost of living adjustment for retirees in the state retirement system.”

**Analysis:** “This bill grants a cost of living adjustment to retirees who have been retired for at least 60 months. The total actuarial cost of the supplemental allowance is funded by retirement system funds.”

**Sponsors:** Rep. Schuett, Merr. 20; Rep. Leishman, Hills. 24; Rep. Fellows, Graf. 8; Rep. Ellison, Merr. 27; Rep. Katsakiores, Rock. 6; Rep. Moffett, Merr. 9; Rep. M. Pearson, Rock. 34; Rep. Rogers, Merr. 28.

### **Financial Considerations**

This bill, as passed by the House, grants a 1.5% cost-of-living adjustment (COLA) on the first \$50,000 of the pension benefit to retirees who retired on or before July 1, 2014, or any beneficiary of such member who is receiving a pension benefit. The COLA would take effect on the retired member's first anniversary date occurring after July 1, 2020. The COLA would be paid from the “state annuity accumulation fund” (i.e. pension Trust Fund).

GRS, the New Hampshire Retirement System’s independent actuary, estimates that providing this benefit from the pension Trust Fund would increase the retirement system’s unfunded actuarial accrued liability (UAAL) and would increase employer contribution rates for a 20-year period beginning in FY 22-23. Initial expenditures beginning in FY 2022 are projected at \$993,000 for the state and \$4.33 million for political subdivisions. The annual amounts payable would continue to increase as covered payroll increases over the 20-year amortization period. The projected impact on employer pension rates as a percent of payroll is illustrated below, using FY 20-21 rates. The actual cost of the COLA would not begin to be recognized until the FY 22-23 employer contribution rates are set in the fall of 2020:

	<b>Current 2020-21 Rates</b>	<b>Impact of Proposal</b>
Employees	10.88%	+0.11% (10.99%)
Teachers	15.99%	+0.18% (16.17%)
Police	24.77%	+0.32% (25.09%)
Fire	26.43%	+0.34% (26.77%)

Alternatively, GRS estimated the cost of terminally funding this benefit COLA up front would be one-time expenditure of \$74.9 million on July 1, 2020.

### **Background**

The first NHRS post-retirement allowances were granted by the Legislature in 1974. Historically, two types of allowances have been granted:

- A cost-of-living-adjustment (COLA) – referred to in RSA 100-A as a supplemental allowance – is a permanent percentage annual increase to a pension benefit. (Ex. A 1.5% COLA on a \$20,000 pension permanently increases the benefit to \$20,300 for the lifetime of the benefit recipient.)
- A temporary supplemental allowance (TSA) is a lump-sum payment that does not become a permanent addition to the monthly pension benefit. A TSA is sometimes referred to as a “thirteenth check” or an “extra check.”

The last COLA was issued in 2010; the last TSA was paid in 2018 to retirees who met all of the following criteria: (a) The member retired with at least 20 years of creditable service; (b) The member retired and has been receiving an allowance for at least 5 years prior to July 1, 2018; (c) The annual retirement allowance of the member on June 30, 2018, is not greater than \$30,000. Approximately 8,000 retirees met all these criteria and received a \$500 TSA.

COLAs and other supplemental allowances are not automatic every year. The statutory framework for granting COLAs and TSAs has been modified several times over the years. Currently, the Legislature must vote on what, if any, COLAs or other allowances will be granted.

In 2008, legislation that, among other changes, modified the COLA/TSA statutes (HB 1645) was challenged in court. In 2015, the NH Supreme Court upheld a superior court ruling that the statute dealing with COLAs (RSA 100-A:41-a) did not contain an unmistakable contractual obligation to provide a COLA.

### Post-retirement Allowances Since 1999

	EMPLOYEE	TEACHER	POLICE	FIRE
2018	\$500 TSA payment to certain retirees, see details above.			
2013-17	None	None	None	None
2011-12	No COLA; \$500/\$1K TSA for political subdivision retirees receiving the medical subsidy (\$300/\$600 for Medicare-eligible political subdivision retirees receiving the medical subsidy)			
2008-10	1.5% COLA on first \$30K of base pension, plus: \$1K TSA if base pension is less than \$20K and retiree had at least 15 years of creditable service; \$500 TSA if retired before 1/1/93; \$500/\$1K TSA if receiving Medical Subsidy.			
2007	2.25%	2.25%	2.25%	2.25%
2006	1%	1%	1%	1%
2005	1%	1%	1%	1.5%
2004	1%	1%	1%	2.25%
2003	2%	2%	2%	3.5%
2002	2%	3%	2%	3%
2001	3.5%	3.5%	3.5%	3.5%
2000	4.5%	4.5%	4.5%	4.5%
1999	4%	4%	4%	4%

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