New Hampshire Retirement System
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NHRS Bill Brief: HB 675-FN (as introduced)

Prepared for the House ED&A Committee

Summary: "AN ACT relative to the purchase of service credit in the state retirement system."

Analysis: "This bill modifies the calculation methodologies for the cost of the purchase of service credit in the retirement system for active service in the armed forces and in cases of employer fault."

Sponsors: Rep. Schultz, Merr. 18; Rep. Schuett, Merr. 20; Rep. P. Schmidt, Straf. 19; Rep. Sytek, Rock. 8; Sen. Feltes, Dist 15; Sen. Carson, Dist 14.

Background

There are several types of service credit that a member may be eligible to purchase (i.e., prior withdrawn service, temporary service, military service, Peace Corps service, employer oversight, etc.). Prior to 2014, the cost of most service purchases was calculated under statutory formulas based on current salary and contribution rates, which may have overstated or understated the actuarial cost. The service purchase provisions were amended generally in 2014 so that the cost for most types of service credit is now calculated based on the "full actuarial cost" using a calculation tool prepared for NHRS by GRS, the retirement system's independent actuary. When the 2014 changes were enacted, the formulas for employer oversight service credit and prior military service credit were not amended.

This bill – which the NHRS Board of Trustees authorized staff to seek sponsors for – would apply the full actuarial cost method to the prior military service credit calculation, bringing it in line with most other service purchase types.

The bill also changes the statutory formula for calculating the cost of employer oversight, which is the only type of service purchase that is not fully funded by the member. In this context, "oversight" means that the employer failed to properly or timely enroll the member in the retirement system. Under current law, the oversight purchase cost is shared 50/50 between the member and the employer. At the time this cost-split provision was enacted into law (1989), employers were paying between 14% and 50% of the total pension contribution (depending on the member group). Consequently, the 50/50 cost sharing was intended to reduce the cost to the employee in instances where the employer failed to properly enroll the member and, perhaps, to serve as an incentive for employers to ensure timely enrollment.

Currently, the employer pays between 62% and 73% of the total contribution (depending on the member group), so the 50/50 cost sharing now means that the member is essentially providing a contribution subsidy for an at-fault employer. The proposed formula, which has been reviewed by GRS, charges the member the amount of contributions that he or she would have paid had the member been enrolled timely. The employer's cost is based on the current employer contribution rate in effect at the time of the purchase, which would more accurately reflect the obligation of the employer with respect to the unfunded accrued liability. By contrast, if the full actuarial cost method were used for the oversight calculation, it would be more difficult to determine which share the employee and employer should pay, respectively.

From FY 15-18, the average number of completed service purchases for employer oversight has been 12.5 per year, and about double that for prior military service.

Financial Considerations

GRS, the retirement system's actuary, estimates that this bill would have a small impact (minimal gains and losses over time) on the actuarial status of the System and employer contribution rates. Such minimal costs are indeterminable.

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Note: This bill was requested by NHRS.