

## **NHRS Bill Brief: HB 629-FN (as introduced)**

*Prepared for the House ED&A Committee*

**Summary:** “AN ACT establishing a state defined contribution retirement plan for state and political subdivision members of the retirement system.”

**Analysis:** “This bill establishes a state retirement plan for new members of the retirement system, who begin service on or after July 1, 2019, which is structured as a defined contribution plan. All new group I and group II members of the retirement system employed by the state and political subdivision employers on and after July 1, 2019 will be required to contribute to the defined contribution plan as administered by the state treasurer and the department of administrative services.”

**Sponsors:** Rep. McGuire, Merr. 29.

### **Background**

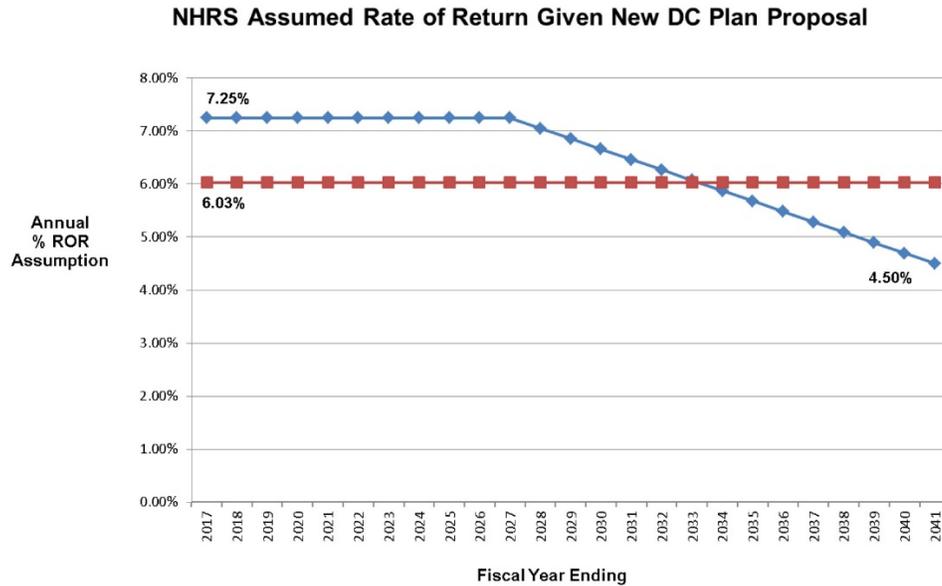
Because proposed RSA 100-A:59 contained in this bill states that all contributions and assets of the defined contribution (DC) plan “shall not be assets of the retirement system administered by the board of trustees or subject to control of the board of trustees of the retirement system,” NHRS has not reviewed the legislation for any potential administrative, technical, mechanical, or plan qualification issues. Rather, NHRS focused on the potential impact this legislation would have on funding for the existing defined benefit (DB) plan, which would become closed to new members.

Closing the NHRS DB plan does not eliminate the retirement system’s unfunded actuarial accrued liability (UAAL).

In its analysis of the bill, GRS, the retirement system’s independent actuary, states that employer contributions toward the current defined benefit plan would increase beginning as a result of two factors associated with funding a closed plan: (1) changing the amortization method from level percent of payroll to level dollar, and, (2) reducing the assumed rate of return over time as the retiree population increases.

- (1) Level percent of payroll calculates amortization payments as a constant percentage of projected payroll over a given number of years, increasing over time in terms of dollars but remaining constant as a percent of payroll. Level dollar calculates amortization payments as a fixed dollar amount over the amortization period, which increases contributions in the near term but leads to decreasing inflation-adjusted payments over time. Generally, in order to fully fund a closed DB plan, the amortization method must change from a level percent of payroll to a level dollar amount because the payroll of a closed plan will shrink over time due to a constantly declining population of active members.
- (2) The current expectation of the annual rate of return on NHRS assets is 7.25% per year. This assumption is based on the current asset allocation, which is more weighted to equity than fixed income. A fully closed DB plan may ultimately need to switch to more fixed income investments as the cash flow needs increase. NHRS’ investment consultant, NEPC, projected in 2012 that the ultimate assumed rate of return resulting from a higher allocation to fixed income investments consistent with a closed plan would be 4.50% per year. For illustrative purposes (see chart below)

GRS developed a single equivalent discount rate of 6.03% to apply to the present value of benefits as of June 30, 2017, in the alternate investment scenario.



### Financial Considerations

In its analysis, GRS reported that the change of assumed rate of return from 7.25% to 6.03% would increase the retirement system’s unfunded actuarial accrued liability (UAAL) by \$1.9 billion as of June 30, 2017, which is the date of the most current rate-setting valuation.

The chart below shows the projected impact on employer contributions of shifting to level-dollar amortization and decreasing the assumed rate of return if the board were to recertify the employer contribution rates for the 2020-2021 biennium on this basis.

Projected Increase/(Decrease) Impact on Employer Contributions (Total DB Plan)				
Member Classification	FY 2020	FY 2021	FY 2022	FY 2023
State Employees Pension	\$ 56,399,846	\$ 55,199,176	\$ 54,098,358	\$ 53,071,247
State Police Pension	19,785,430	19,337,459	18,887,033	18,429,043
State Fire Pension	1,111,558	1,089,961	1,067,385	1,041,857
<b>State Total</b>	<b>\$ 77,296,834</b>	<b>\$ 75,626,596</b>	<b>\$ 74,052,776</b>	<b>\$ 72,542,147</b>
Political Subd. Employees Pension	\$ 67,601,737	\$ 66,162,595	\$ 64,843,138	\$ 63,612,027
Political Subd. Teachers Pension	150,413,831	148,377,167	146,488,961	144,703,033
Political Subd. Police Pension	55,760,876	54,498,370	53,228,943	51,938,198
Political Subd. Fire Pension	34,316,522	33,649,759	32,952,777	32,164,687
<b>Political Subd. Subtotal</b>	<b>\$ 308,092,966</b>	<b>\$ 302,687,890</b>	<b>\$ 297,513,818</b>	<b>\$ 292,417,944</b>
<b>Grand Total</b>	<b>\$ 385,389,800</b>	<b>\$ 378,314,486</b>	<b>\$ 371,566,594</b>	<b>\$ 364,960,091</b>

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**Note:** The content provided above is for informational purposes; NHRS has not taken a position on this legislation.