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NHRS Bill Brief: HB 390-FN

Prepared for the House ED&A Committee

Summary: "AN ACT relative to the amortization of retirement system unfunded accrued liability."

Analysis: "This bill extends the period for amortization of the retirement system unfunded liability as of 2017 by 5 years to 2044. The bill requires a recertification of rates to account for the change."

Sponsors: Rep. O'Brien, Hills. 36.

Background

HB 390 would extend the period of amortization for the unfunded actuarial accrued liability (UAAL) as of June 30, 2017, from its current thirty (30) year period that would end in 2039 for another five (5) years to 2044. The 30-year amortization of the was included in House Bill 653 (Chapter 0268) in 2007, which passed both chambers with overwhelming majorities.

Note: Layered amortization for actuarial gains and losses incurred after June 30, 2017, was adopted by the Legislature in 2018. The outstanding UAAL balance as of June 30, 2017 (approximately $5 billion), referred to as the "Initial UAAL," remains scheduled to be paid by 2039. New two-year layers will be established as they occur in future biennial valuations and will be amortized over separate periods of no more than 20 years.

NHRS Opposition to HB 390

At its January 12, 2021 meeting, the NHRS Board of Trustees voted 11-0 to oppose HB 390 as counter to the Board's fiduciary duty of prudence and adherence to sound actuarial practice. Among the factors contributing to this decision were:

- HB 390 defers a significant portion of the unfunded liability payoff into the 2040s, increasing the ultimate employer cost of paying down the unfunded liability by approximately $1.4 billion. For every dollar an employer saves through 2039, that employer will have to pay $2 back over the final five years of the revised amortization period.
- Exactly 30 years ago, a significant percentage increase to the 1992-93 employer contribution rates in the midst of an economic recession led to legislation that sought temporarily mitigate the increase by changing the actuarial method used to set the rates. This "temporary" solution, which remained in the law until 2007, contributed significantly to the current unfunded pension liability. It is important that we adhere to the funding plan, or we run the risk of compounding past mistakes.
- HB 390 would set a dangerous precedent, creating a template to refinance pension obligations at the expense of future generations. The Legislature, with the input from our actuaries, adopted a 30-year amortization plan commencing in 2010 to address this unfunded liability. This proposal constitutes a deviation from that plan and a step backwards in terms of the progress we have made since recognizing the liability.

Financial Considerations

According to Gabriel Roeder Smith & Company (GRS), the New Hampshire Retirement System's independent actuary, this proposal will reduce NHRS employer contribution rates in fiscal years 2024-39, however, extending the amortization period as specified will result in additional employer contributions of $2.7 billion over the 5-year amortization period.

Note: The actuarial analysis is based on LSR 0471.0, which did not contain the rate recertification section that is included in the bill as introduced. The recertification will result in a reduction of employer contributions beginning two years earlier, in Fiscal Year 2022, which will further increase the employer cost between 2040-44.

Additional Information

Layered Amortization: In 2018, legislation was enacted to recognize actuarial gains and losses incurred after July 1, 2017, over closed periods of no more than 20 years. This is referred to as "layered amortization" of the UAAL. The outstanding UAAL balance as of June 30, 2017 (approximately $5 billion), referred to as the "Initial UAAL," remains scheduled to be paid by 2039. New two-year layers will be established as they occur in future biennial valuations and will be amortized over separate periods of no more than 20 years. This approach will spread future actuarial gains and losses more evenly over time, avoid some of the potential employer contribution rate volatility as 2039 approaches, and provide a basis to deal with gains and losses incurred beyond 2039. Because it was only enacted recently, layered amortization has only a minor impact on the FY 22-23 contribution rates, although it did, in fact, slightly reduce the rate impact of the assumption changes.

Previous opposition to extended amortization: Similar legislation extending the amortization by 10 years was opposed by the Board in February 2017. That legislation was recommended ITL by this committee and killed by the House on a voice vote.

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