

NHRS Bill Brief: SB 434-FN (as introduced)

Prepared for the Senate ED&A Committee

Summary: “AN ACT relative to the reduction in the calculation of state retirement system annuities at age 65.”

Analysis: “This bill provides for the application of the reduction of a retiree’s annuity at the member’s full retirement age under the federal Social Security system.”

Sponsors: Sen. Cavanaugh, Dist 16; Sen. Rosenwald, Dist 13; Rep. Deshaies, Carr. 6; Rep. Allard, Merr. 21; Rep. Pratt, Rock. 3; Rep. Merner, Coos 7

Background

Prior to 1988, the law governing the New Hampshire Retirement System coordinated Group I pension benefits to federal Social Security benefits. Because of this coordination, Group I pension recipients could see an NHRS pension benefit reduction of anywhere from 10 percent to as much as 50 percent when they turned 65. The recalculation of the pension benefit was based on a variety of factors, including a member’s service time, age at retirement, and how much, if any, of his or her Earnable Compensation exceeded the maximum amount of taxable earnings for Social Security benefits.

In 1988, the Legislature removed the coordination of Group I pension benefits with Social Security benefits (SB 327, Chapter 193), but left in the law a pension recalculation provision that reduced Group I pension benefits approximately 10 percent at age 65.

The way the law works is that when a retiree attains age 65, his or her pension benefit is recalculated. Under the benefit formula for Group I members retiring between the ages of 60-64, a member’s average final compensation (AFC) is divided by 60 and that amount is multiplied by the member’s months and years of creditable service. Upon attainment of age 65, the formula changes so that a retiree’s AFC is divided by 66 instead of 60, and the benefit is recalculated, resulting in a benefit reduction of just under 10 percent. All retirees receive written notice of this adjustment upon retirement and again prior to their 65th birthday. Note: Any Group I member who retires after age 65 has his or her benefit calculated with a divisor of 66 from the outset; this includes all Group I members hired on or after July 1, 2011, for whom eligibility to begin receiving an unreduced service retirement is 65.

Here is a sample pension calculation for a member in service prior to July 1, 2011, who retires at age 60 with an AFC of \$50,000 and 30 years of service:

Age 60: $\$50,000 \div 60 \times 30 \text{ years} = \$25,000$ annual pension

Age 65: $\$50,000 \div 66 \times 30 \text{ years} = \$22,727$ annual pension

When NHRS Group I pension benefits were no longer coordinated with Social Security benefits in 1988, the Normal Social Security Retirement Age (NSSRA) was, and remains, 65 for anyone born in 1937 or earlier. Currently, the NSSRA is 67 for anyone born in 1960 or later. For people born between 1938 and 1959, the NSSRA varies from 65 years, 2 months, to 66 years, 10 months. (The normal age of eligibility

for Medicare is 65 regardless of when one begins receiving Social Security benefits, although some people may qualify for Medicare earlier due to disability.)

This bill would index the pension recalculation to the age at which a retiree reaches his or her NSSRA; any future modifications to the NSSRA would be recognized automatically.

This bill does not impact Group II (Police and Fire) members because they do not participate in Social Security.

Financial Considerations

GRS Consulting, the New Hampshire Retirement System’s independent actuary, estimates that this bill would increase employer contribution rates by 0.19% of covered payroll for employees and 0.22% of covered payroll for teachers in fiscal year 2024 and thereafter.

This bill would increase the unfunded actuarial accrued liability (UAAL) by \$44.2million (a 0.2 percent decrease in the funded ratio). The UAAL was \$5.72 billion as of June 30, 2021.

The actuary’s projected employer costs for fiscal years 2024-26 are:

	FY 2024	FY 2025	FY 2026
State	\$1,230,000	\$1,270,000	\$1,300,000
Political Subdivisions	\$4,260,000	\$4,380,000	\$4,480,000

(**Note:** Since the rates for the 2024-25 biennium are unknown at this time, the impact of the proposal shown is based on the June 30, 2019 actuarial valuation.)

In addition, the fiscal impact to NHRS for the necessary software customizations to accommodate the requirements in this bill would be less than \$10,000.

Other Considerations

-- The bill will be effective 60 days after passage, and therefore applies to Group I members who retire on or after the effective date. As written, the retirement system does not believe the bill would apply retroactively to people who are already retired.

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