

When a Group I member turns 65

There's a lot of information out there regarding the New Hampshire Retirement System, some of it fact, some of it fiction. This document, along with others in the "NHRS ... Now You Know" series, is designed to provide you with straight talk about the retirement system.

One of the most common questions Group I (Employee and Teacher) members have about their pension is, "Why does my benefit decrease when I turn 65?"

Prior to 1988, the law governing the New Hampshire Retirement System linked Group I pension benefits to federal Social Security benefits. Because of this linkage, Group I pension recipients could see a benefit reduction of anywhere from 10 percent to as much as 50 percent when they turned 65. The statutory 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. This provision did not impact Group II (Police and Fire) members, who do not participate in Social Security.

In 1988, the Legislature de-linked Group I pension benefits from Social Security (SB 327, Chapter 193), but left in the law a pension recalculation provision that reduced Group I pension benefits approximately 10% at age 65.

The way the law works is that when a retiree attains age 65, his or her pension 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 member's AFC is divided by 66 instead of 60. 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 the service retirement age 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 \$40,000 and 30 years of service:

Age 60: $\$40,000 \div 60 \times 30 \text{ years} = \$20,000$ annual pension

Age 65: $\$40,000 \div 66 \times 30 \text{ years} = \$18,182$ annual pension

When NHRS Group I pension benefits were de-linked from Social Security in 1988, the "normal retirement age" for Social Security was, and remains, 65 for anyone born in 1937 or earlier. Currently, the normal retirement age is 67 for anyone born in 1960 or later. For people born between 1938 and 1959, the normal retirement age 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

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Security benefits, although some people may qualify for Medicare earlier due to disability.)

When NHRS benefits were de-linked from Social Security, it was considered a significant benefit enhancement for active Group I members. Over time, however, the age 65 recalculation has come to be seen as inequitable by some members and retirees. Supporters of the current law contend that the larger pre-65 benefit was intended to help retirees defer collecting Social Security at an earlier age and continues to fulfill that function, as well as providing additional retirement income prior to attaining Medicare eligibility.

As a public policy issue, the question of whether the recalculation is fair or unfair is a legislative matter outside the sphere of the retirement system, which must administer the law as written. Several unsuccessful legislative attempts to eliminate or revise the law have been introduced over the years, most recently with a 2018 bill that sought to index the pension recalculation to the age at which a member reaches his or her full Social Security retirement age.