

About those large pensions...

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.

Once or twice a year, you'll likely come across a media report about a longtime New Hampshire public servant who retires and begins receiving what many people may consider a substantial pension benefit from the New Hampshire Retirement System.

And, let's be honest here, you may feel a little put out, even envious, especially if you think about your own retirement income prospects.

When you see one of these reports, there are three key facts to keep in mind: One, the benefit was rightfully earned under the laws in effect during the member's career; two, that big benefit is not even faintly representative of the benefit received by an average NHRS retiree; and, three, the pension formulas for many current members and all

future hires have already been reduced. Let's look at each of those facts in greater detail:

One – How the benefit is earned: There are different benefit formulas for Group I (Employee and Teacher) and Group II (Police and Fire) members, with the Group II formula generating larger NHRS pension benefits due to the fact that Group II members do not participate in Social Security, as well as to the nature of public safety work. However, for both groups, service and salary are the key components for calculating pension benefits – the longer someone works and the more they make as they advance up the career ladder, the larger the benefit will be. It's simple math.

Two – What an average benefit looks like: Retired state and local employees, who make up 49 percent of all NHRS retirees, received an average annual benefit of \$15,324 in fiscal year 2023. For retired teachers, who make up about 36 percent of all retirees, the number was \$23,441. For police and fire, who together make up the remaining 15 percent, the average benefits were \$39,818 and \$44,968, respectively. More than 60 percent of all pension recipients receive an annual pension benefit under \$25,000 and more than 90 percent receive an annual pension benefit under \$50,000.

Three – Changes to the law: In 2011, sweeping changes were made to the retirement system in House Bill 2 and other legislation. Benefit provisions for some current members and all future members were changed by amending the definition of Earnable Compensation to a more restrictive one; increasing the calculation of Average Final Compensation from 3 to 5 years; capping the

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maximum allowable benefit; increasing the Service Retirement age; and reducing the Group II benefit formula.

These changes essentially created a three-tier benefit structure based on whether a member was vested for a pension benefit by January 1, 2012 (Tier A), hired prior to July 1, 2011, but not vested by January 1, 2012 (Tier B), or hired on or after July 1, 2011 (Tier C).

HB 2 also increased member contribution rates by 24 percent to 40 percent for all members; eliminated a member's ability to purchase NHRS service for public employment in another state; and created a statutory limit on "part-time" for retirees working for participating employers.

Of course, these changes won't be fully felt until the members vested before January 1, 2012 – i.e. those working under the "old" benefit provisions – retire. This means we'll continue to see some of those large pensions in the news for a while.

But regardless of whether you believe NHRS pensions are too generous, or not generous enough, know that subsequent generations of retirees will be working longer and accruing benefits at a slower pace.

And know that the large pension you're hearing about is not representative of the vast majority of retired public servants.