NHRS ... NOW YOU KNOW

Separating myth from reality

> 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.

Here are the realities behind six common misconceptions about the New Hampshire Retirement System:

Misconception 1: NHRS is a state agency.

Reality: NHRS is not a state agency under the executive branch; it is a component unit of the state governed by statute, independently funded by a pension trust, and overseen by a Board of Trustees. Trustees are fiduciaries bound by law to act solely in the interest of the participants and beneficiaries of the pension plan.

Misconception 2: NHRS has the authority to grant cost-of-living adjustments (COLAs).

Reality: The Legislature, as plan sponsor, is responsible for the design of the pension plan and must vote on what, if any, COLAs or other post-retirement allowances will be granted to retirees and beneficiaries.

Misconception 3: Because of the number of baby boomers approaching retirement, and the fact that people are living longer than they were when NHRS was formed in 1967, NHRS cannot afford to pay pensions.

Reality: The plan is designed so that pensions are pre-funded, not "pay-as-you-go." In addition, NHRS reviews and, as needed, updates all of its actuarial funding assumptions every five years. Mortality assumptions reflect current life expectancies and include an assumption for improvement in life expectancy.

Misconception 4: NHRS sets employer contribution rates at whatever level it chooses.

Reality: There is no discretion in setting the employer rates. State law requires that the NHRS Board of Trustees certify actuarially sound employer contribution rates necessary to keep the retirement system on track to meet its long-term obligations; the New Hampshire Constitution (Part I, Article 36-a) requires employers to pay those rates in full. (Member contribution rates are set by statute.)

Misconception 5: If future hires were put into a defined contribution plan, pension costs for employers would decrease.

Reality: Closing the current NHRS defined benefit (DB) plan to new members does not eliminate the retirement system's unfunded actuarial accrued liability (UAAL).

In its analysis of recent defined contribution legislation, GRS, the retirement system's independent actuary, states that employer contributions toward the current DB plan would actually increase, primarily because a plan that is closed to new hires would require more conservative funding and investment strategies.

Misconception 6: NHRS provides health insurance to retirees.

Reality: NHRS administers premium deductions from pension payments, but does not provide health insurance for retirees.

By statute, all NHRS-participating employers that provide health insurance coverage to active employees – with the exception of the state – must give retiring members the option to continue to participate in their group plans. Employers are not required to pay any of the cost of coverage, although some may. In most cases, a retiree must elect whether or not to continue coverage at the time of retirement.

Some state members, depending on their date of hire, length of service, and membership classification, may be eligible for post-retirement health care coverage through the state under a law (RSA 21-I:30) that is separate from the retirement system.