



Retirement Update

March 26, 2007

The smoke is clearing in the Legislature and it is now possible to update you, with a degree of confidence, about actions the House of Representatives is taking relative to the New Hampshire Retirement System. Some are very good, others, well, troubling.

The House Executive Departments and Administration Committee's Sub-Committee on Retirement, chaired by Representative Ricia McMahon, D-Sutton, worked for three long, difficult days under intense pressure to report a bill that would address the immediate and long-term problems of the NHRS.

Given the time available, and the environment in which the work sessions were conducted, I can only say that every member should be thankful for the outcome -- despite NEA-NH having some major reservations about the bill. Rep. McMahon allowed input from many individuals and associations while the sub-committee worked off two plans to reach its consensus.

She was patient, informed, open and welcoming. What a difference it made to have her in control rather than those who would have dealt with this issue had the election results been different last November. The same should be said for the other sub-committee members as well as the membership of the entire House Executive Departments and Administration Committee.

Here is what will be passed on to the Senate:

1. The House bill keeps the defined-benefit retirement system.
2. The accounting system will change from one that has allowed a \$3 billion-plus unfunded liability to grow over the last 15 years to one that is pay-as-you-go.
3. The state will continue to contribute its 35% share to school districts, cities and towns to cover a portion of their contribution for teachers, police and firefighters.
4. The Special Account will be changed. In order for funds to be deposited in the account, the system will have to be 85% funded. Once that goal is met, all income over 10.5% will go into the account. Currently, all income over .5% of the established actuarial rate goes into it. That rate is now 8.5%. As of this

- writing, the system is 67% funded, but that rate will probably drop once new accounting standards are in place. It could drop to as little as 50% funded
5. Your benefits will be calculated on your 3 highest years of earnings. Severance packages and the like will be included in your calculation. No person will be allowed to collect a pension more than his or her highest year of earnings. There will be no changes to the 150% rule relative to payment of un-used sick leave, etc.
 6. The system will have 30 years to make up and fund the \$3 billion-plus unfunded liability. Employer rates will pay the make-up cost.
 7. Employers will be given a seat on the NHRS Board of Trustees and the state treasurer will become a non-voting member.
 8. Employers will pay a rate no less than the employee contribution rate at all times. This sets a floor below which their rates cannot drop.

NEA-NH supported these changes and opposed others that could have been made. Looking at this legislation over the long term, it does several constructive things and protects members from harmful situations. The bill does, however, leave a massive problem un-resolved—a problem for which NEA-NH presented a solution that was not adopted by the committee.

The Special Account funds cost-of-living adjustments (COLAs). Because of the need to put in place a funding ratio (the 85 % rule) and a trigger rate (the 10.5% on excess earnings), no money will flow into the account for 10 to 20 years. That means that the only source for additional COLAs during that time will be the money now held in the special account.

The teacher portion of that account currently has \$116 million. A 2.5 % COLA for 2007 will take \$21 million from that account. Given that the next year's COLA will be based on this year's benefit PLUS this year's COLA, within 4-5 years the COLA money will be gone. So, at a minimum, and I mean a minimum, COLAs will not be granted for at least 5 years. That is more likely to be 10-15 years.

We will continue to work on this for you. I can tell you that, given this COLA problem, the New Hampshire Retired Educators Association is opposing the bill. The bill number to track is House Bill 653-FN. The NEA-NH Executive Board is meeting on Thursday, March 29, and will discuss this measure. I will report back to you on their action.

Because many folks have asked me to keep these updates relatively brief, I will be sending you more e-mails in the near future to inform you about the challenges we face with this bill as well as other legislative matters.

Rick Trombly, NEA-NH Director of Public Affairs

rtrombly@nhnea.org