

Committee Report

CONSENT CALENDAR

February 1, 2021

HOUSE OF REPRESENTATIVES

REPORT OF COMMITTEE

The Committee on Executive Departments and Administration to which was referred HB 390-FN-LOCAL,

AN ACT relative to the amortization of retirement system unfunded accrued liability. Having considered the same, report the same with the following resolution: RESOLVED, that it is INEXPEDIENT TO LEGISLATE.

Rep. Tony Lekas

FOR THE COMMITTEE

COMMITTEE REPORT

Committee:	Executive Departments and Administration
Bill Number:	HB 390-FN-LOCAL
Title:	relative to the amortization of retirement system unfunded accrued liability.
Date:	February 1, 2021
Consent Calendar:	CONSENT
Recommendation:	INEXPEDIENT TO LEGISLATE

STATEMENT OF INTENT

This bill would extend the date when the unfunded liability in the pension system is fully funded by five years, changing it from 2039 to 2044. Failing to keep a pension system fully funded is very expensive in the long run. This bill would cost the taxpayers of New Hampshire an additional \$1.4 billion. For every \$1 deferred in the short term, taxpayers will need to spend an additional \$2. The state, counties, and municipalities have been seeing the cost of the under funding of the pension system in the past and will have to continue to make significantly higher pension payments until those past mistakes are made up for. There is always pressure to maintain or increase spending and to minimize tax increases. There are often situations which increase that pressure for a time. COVID is not unique in that respect. Perhaps the worst aspect of this bill is that it would burden our children and grandchildren in the future with the cost of our lack of fiscal discipline today.

Vote 18-1.

Rep. Tony Lekas
FOR THE COMMITTEE

Original: House Clerk
Cc: Committee Bill File

CONSENT CALENDAR

Executive Departments and Administration

HB 390-FN-LOCAL, relative to the amortization of retirement system unfunded accrued liability.
INEXPEDIENT TO LEGISLATE.

Rep. Tony Lekas for Executive Departments and Administration. This bill would extend the date when the unfunded liability in the pension system is fully funded by five years, changing it from 2039 to 2044. Failing to keep a pension system fully funded is very expensive in the long run. This bill would cost the taxpayers of New Hampshire an additional \$1.4 billion. For every \$1 deferred in the short term, taxpayers will need to spend an additional \$2. The state, counties, and municipalities have been seeing the cost of the under funding of the pension system in the past and will have to continue to make significantly higher pension payments until those past mistakes are made up for. There is always pressure to maintain or increase spending and to minimize tax increases. There are often situations which increase that pressure for a time. COVID is not unique in that respect. Perhaps the worst aspect of this bill is that it would burden our children and grandchildren in the future with the cost of our lack of fiscal discipline today. **Vote 18-1.**

Original: House Clerk

Cc: Committee Bill File

Archived: Tuesday, April 20, 2021 9:30:58 AM
From: [Carol McGuire](#)
Sent: Tuesday, February 2, 2021 4:33:36 PM
To: [Miriam Simmons](#); [Pam Smarling](#)
Subject: Fwd: Committee Report on HB 390
Response requested: No
Importance: Normal

----- Forwarded message -----
From: **Tony Lekas** <rep.tony.lekas@gmail.com>
Date: Tue, Feb 2, 2021 at 2:55 PM
Subject: Committee Report on HB 390
To: <carol@mcguire4house.com>

HB390 -FN-L relative to the amortization of retirement system unfunded accrued liability.

Committee Motion: ITL

This bill would extend the date when the unfunded liability in the pension system is fully funded by five years from 2039 to 2044. Failing to keep a pension system fully funded is very expensive in the long run. This bill would cost the taxpayers of New Hampshire an additional \$1.4 billion. For every \$1 deferred in the short term taxpayers will need to spend an additional \$2. The state, counties, and municipalities have been seeing the cost of the under funding of the pension system in the past and will have to continue to make significantly higher pension payments until those past mistakes are made up for. There is always pressure to maintain or increase spending and to minimize tax increases. There are often situations which increase that pressure for a time. COVID is not unique in that respect. Perhaps the worst aspect of this bill is that it would burden our children and grandchildren in the future with the cost of our lack of fiscal discipline today.

--
Representative Tony Lekas
Hillsborough 37 (Hudson and Pelham)
Committee: Executive Departments and Administration
30 Barretts Hill Rd
Hudson, NH 03051
603-305-5726

Voting Sheets

HOUSE COMMITTEE ON EXECUTIVE DEPARTMENTS AND ADMINISTRATION

EXECUTIVE SESSION on HB 390-FN-LOCAL

BILL TITLE: relative to the amortization of retirement system unfunded accrued liability.

DATE: February 1, 2021

LOB ROOM: Remote / Hybrid

MOTIONS: INEXPEDIENT TO LEGISLATE

Moved by Rep. T. Lekas

Seconded by Rep. Grote

Vote: 18-1

CONSENT CALENDAR: YES

Statement of Intent: Refer to Committee Report

Respectfully submitted,

Rep John Sytek, Clerk

HOUSE COMMITTEE ON EXECUTIVE DEPARTMENTS & ADMINISTRATION

EXECUTIVE SESSION on Bill # ~~233~~ 390

BILL TITLE: RELATIVE TO THE ~~AMORTIZATION~~ AMORTIZATION OF RETIREMENT SYSTEM UNFUNDED ACCRUED LIABILITY

DATE: 2-1-21

LOB ROOM: 206-208

MOTION: (Please check one box)

- OTP
- ITL
- Retain (1st year)
- Adoption of Amendment # _____ (if offered)
- Interim Study (2nd year)

Moved by Rep. LERAS Seconded by Rep. GROTE Vote: 18-1

MOTION: (Please check one box)

- OTP
- OTP/A
- ITL
- Retain (1st year)
- Adoption of Amendment # _____ (if offered)
- Interim Study (2nd year)

Moved by Rep. _____ Seconded by Rep. _____ Vote: _____

MOTION: (Please check one box)

- OTP
- OTP/A
- ITL
- Retain (1st year)
- Adoption of Amendment # _____ (if offered)
- Interim Study (2nd year)

Moved by Rep. _____ Seconded by Rep. _____ Vote: _____

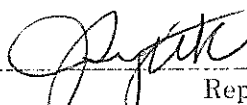
MOTION: (Please check one box)

- OTP
- OTP/A
- ITL
- Retain (1st year)
- Adoption of Amendment # _____ (if offered)
- Interim Study (2nd year)

Moved by Rep. _____ Seconded by Rep. _____ Vote: _____

CONSENT CALENDAR: YES NO

Minority Report? _____ Yes _____ No If yes, author, Rep: _____ Motion _____

Respectfully submitted:  _____
Rep. John Sytek, Clerk



2021 SESSION

Executive Departments and Administration

Bill #: 390 Motion: ITC AM #: _____ Exec Session Date: 2-1-21

<u>Members</u>	<u>YEAS</u>	<u>Nays</u>	<u>NV</u>
McGuire, Carol M. Chairman	X		
Roy, Terry Vice Chairman	X		
Sytek, John Clerk	X		
Pearson, Stephen C.	X		
Yakubovich, Michael	X		
Lekas, Tony	X		
Alliegro, Mark C.	X		
Bailey, Glenn	X		
Lanzara, Tom E.	X		
Santonastaso, Matthew	X		
Goley, Jeffrey P.	X		
Schuett, Dianne E.	X		
Jeudy, Jean L.	X		
Schmidt, Peter B.	X		
Schultz, Kristina M.	X		
Fellows, Sallie D.	X		
Fontneau, Timothy J.	X		
Grote, Jaci L.	X		
O'Brien, Michael B.			X
TOTAL VOTE:			

Hearing Minutes

HOUSE COMMITTEE ON EXECUTIVE DEPARTMENTS AND ADMINISTRATION

PUBLIC HEARING ON HB 390-FN-LOCAL

BILL TITLE: relative to the amortization of retirement system unfunded accrued liability.

DATE: January 27, 2021

LOB ROOM: LOB Hybrid **Time Public Hearing Called to Order:** 2:30 p.m.

Time Adjourned: 3:15 p.m.

(please circle if present)

Committee Members: Reps. McGuire, Roy, Sytek, S. Pearson, Yakubovich, Lekas, Alliegro, Bailey, Lanzara, Santonastaso, P. Schmidt, Schultz, Goley, Jeudy, Schuett, Fellows, Fontneau, Grote, M. O'Brien

Bill Sponsors:
Rep. O'Brien

TESTIMONY

* Use asterisk if written testimony and/or amendments are submitted.

HB 390 relative to the amortization of retirement system unfunded accrued (UAAL). (2:30/3:15)

Rep. O'Brien, sponsor, introduced the bill and spoke in favor.

He said that this bill would help all cities and towns. He traced a history of the amortization schedule and compared his bill to that of refinancing a home mortgage. He said that municipalities are hurting due to COVID and noted the elimination of the 35% subsidy by the state of local retirement cost.

Marty Karlon, Public Information Officer of the NHRS and George Lagos, Executive Director testified jointly.

Mr. Karlon said that the Trustees had voted 11-0 against this bill in their role as system fiduciaries. The NHRS must use sound employer rates. This bill would cost \$1.4B in additional cost. Mr. Karlon discussed how decisions made starting in 1971 had contributed to the present UAAL. He said that GASB recommendation for current amortization terms was in the 15-20 year range, as contrasted to our 30 year schedule. He also pointed out that this situation was not the same as refinancing a home mortgage. He said the Trustees were also concerned that this would set a precedent for continued extensions.

Mr. Lagos continued: he was aware of the burden of the employer contributions on municipalities; that 80% of the cost was to fund the UAAL. The UAAL has resulted from present costs being paid for with future dollars. He said that the legislature has stuck with the present plan and should continue to do so. In the ideal system, he noted, there would be no UAAL.

There were questions concerning what would happen to employer rates when the UAAL would be eliminated in 2039.

Rep. Telerski spoke in favor saying that municipalities needed this “lifeboat” since revenues “are up in the air” due to COVID.

Arthur Beaudry, NH State Permanent Firefighters Retirement Association, a retired Captain and former NHRS Trustee, spoke in opposition.

He said this bill would take the NHRS down the same path as in the 1990’s where the legislature changed the assumption rate (8% to 9.75%) and the methodology from “entry age normal” an “open aggregate group” method. These greatly *increased* the UAAL. He said that the system should be based on sound economic practices, not the current economy.

Jim Donchess, Mayor of Nashua, spoke in support.

He said the recently lowered assumption rate has caused problems. He discussed Nashua’s numbers and said that the present situation is completely different than that of the ‘90’s. He felt that the refinancing analogy was accurate. He said that, while a private system must be 100% funded, the state of NH is in no danger of going out of business and could have a lesser funding ratio.

Dennis Corrigan, Granite State Taxpayers and an actuary, spoke in opposition.

He said that the NHRS should be funded at 100%, not the present 61%. The system cannot last indefinitely in an underfunded condition. He discussed the federal pension protection act and the ratio that it mandated.

John L. Griffin, CFO of the city of Nashua spoke in support.

He described the effect on Nashua when new employer rates would come into effect July 1.

Public hearing adjourned at 3:15 p.m.

**Respectfully submitted by
Rep. John Sytek
Committee Clerk**

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House Remote Testify

Executive Departments and Administration Committee Testify List for Bill HB390 on 2021-01-27

Support: 8 Oppose: 7 Neutral: 0 Total to Testify: 6

<u>Name</u>	<u>Email Address</u>	<u>Phone</u>	<u>Title</u>	<u>Representing</u>	<u>Position</u>	<u>Testifying</u>	<u>Signed Up</u>
Lagos, George	george.lagos@nhrs.org	603.410.3520	State Agency Staff	NH Retirement System	Oppose	Yes (0m)	1/26/2021 10:54 AM
Beaudry, Arthur	nhspffra@comcast.net	603.622.3473	A Member of the Public	NHSPFFRA	Oppose	Yes (0m)	1/26/2021 12:38 PM
Donchess, James	donchessj@nashuanh.gov	603.566.3628	An Elected Official	Nashua	Support	Yes (0m)	1/27/2021 7:38 AM
Telerski, Laura	Laura.Telerski@Leg.State.NH.US	603.320.3957	An Elected Official	Hillsborough 35	Support	Yes (0m)	1/26/2021 4:27 PM
Karlon, Marty	marty.karlon@nhrs.org	603.410.3594	State Agency Staff	NH Retirement System	Oppose	Yes (0m)	1/22/2021 11:35 AM
CORRIGAN, R Dennis	dennis@rdcorrigan.com	603.340.4393	A Member of the Public	Myself	Oppose	Yes (0m)	1/24/2021 1:42 PM
Griffin, John	griffinj@nashuanh.gov	978.758.5466	A Member of the Public	City of Nashua - CFO	Support	No	1/27/2021 9:43 AM
Rathbun, Eric	ericrathbun@gmail.com	860.912.3751	A Member of the Public	Myself	Support	No	1/26/2021 9:25 PM
Mangipudi, Latha	Latha.Mangipudi@leg.state.nh.us	603.891.1239	An Elected Official	Hills 35	Support	No	1/27/2021 9:13 AM
Hawkins, Brian	bhawkins@nhnea.org	603.545.7305	A Lobbyist	NEA-NH	Oppose	No	1/27/2021 11:09 AM
Petit, mason	mpetit@seiu1984.org	603.717.1983	A Lobbyist	SEA/SEIU1984	Oppose	No	1/27/2021 2:38 PM
Osborne, Jason	houserepoffice@leg.state.nh.us	603.271.3665	An Elected Official	House Majority Office	Oppose	No	1/26/2021 2:46 PM
Klee, Patricia	patricia.klee@leg.state.nh.us	603.966.0979	An Elected Official	Myself	Support	No	1/25/2021 8:38 PM
Nutting-Wong, Allison	allison.nuttingwong@leg.state.nh.us	603.809.0560	An Elected Official	Myself	Support	No	1/26/2021 8:59 AM
Schmidt, Jan	tesha4@gmail.com	603.880.6060	An Elected Official	Myself	Support	No	1/26/2021 9:06 AM

Testimony



HOUSE COMMITTEE RESEARCH OFFICE
New Hampshire House of Representatives
4th Floor, Legislative Office Building
Concord, NH 03301
(603) 271-3600

Pam Smarling, Senior Committee Researcher
(603) 271-3387; *Pam.Smarling@leg.state.nh.us*

To: Rep. Carol M. McGuire, Chairman, House Executive Departments and Administration Committee

From: Pam Smarling, Senior Committee Researcher
House Committee Research

Date: January 25, 2021

RE: HB 390, relative to the amortization of retirement system unfunded accrued liability.
History of Similar Legislation Filed in 2017

You asked:

What was the disposition of legislation to extend the 30-year amortization period for the UAAL that was introduced in a previous session?

SUMMARY

The 30-year amortization of the NH Retirement System's Unfunded Actuarial Accrued Liability (UAAL) was adopted in 2007 (Chapter 268, Laws of 2007). Under the amortization plan, the accrued liability that existed at that time was scheduled to be paid off between July 1, 2009 and June 30, 2039. HB 390 extends this 30-year amortization period by 5 years, so that it will be paid off in 2044.

Employer contribution rates are set every two years pursuant to RSA 100-A:16, III. The bill also requires the employer contribution rates for FY 2022 and 2023 to reflect the newly extended amortization period. The employer contribution rates for these fiscal years were certified by the New Hampshire Retirement System Board of Trustees at its September 8, 2020 meeting. The rates increased from the previous fiscal year for all of the member categories. Local employers will be required to pay additional 3.22% for teachers, 5.45% for police and 2.9% for firefighters.

Similar legislation to extend the amortization period was filed in 2017. HB 369 (2017) extended the period of amortization for the UAAL from a 30-year period to a 40-year period. It did not include a provision for the recalculation of employer rates already calculated.

This memorandum describes the disposition of the 2017 legislation.

Political Subdivision Contribution Rates for July 1, 2019 - June 30, 2021

The rates below apply to counties, cities and towns, school districts and all other participating political subdivisions except the State of New Hampshire.

	Pension Percentage	Medical Subsidy Percentage	Total Employer Percentage
GROUP I			
Employees	10.88%	0.29%	11.17%
Teachers	15.99%	1.81%	17.80%
GROUP II			
Police	24.77%	3.66%	28.43%
Fire	26.43%	3.66%	30.09%

Political Subdivision Employer Contribution Rates for July 1, 2021 - June 30, 2023

The rates below apply to counties, cities and towns, school districts and all other participating political subdivisions except the State of New Hampshire.

	Pension Percentage	Medical Subsidy Percentage	Total Employer Percentage
GROUP I			
Employees	13.75%	0.31%	14.06%
Teachers	19.48%	1.54%	21.02%
GROUP II			
Police	30.67%	3.21%	33.88%
Fire	29.78%	3.21%	32.99%

Source: NHRS, website

2017-2018 Session

HB 369, relative to the amortization of retirement system unfunded accrued liability.

Sponsors: Rep. LeBrun, Rep. Twombly, Rep. Seidel, Rep. M. MacKay, Rep. King

House Action

Referred to: House ED&A Committee

House Hearing: January 24, 2017

Testimony in Support

- Rep. O'Brien: High employer rates are especially burdensome for municipalities such as Nashua that must operate under a spending cap; if the cap can't be overridden the result will be layoffs in order to pay the contributors; want to slow down the rate increases.
- The mayor of Nashua testified that the contributions for Nashua will go from \$8 million to \$23 million in a matter of just a few years (10 years). The impact of this is that property taxes will increase and services must be cut. Cutting the budgets of schools, fire and police, makes the state less attractive to both those living here as well as those we hope to attract; this problem actually began when the state reneged on its promise to fund the pension system for municipalities at 35%. If the bill is passed, it would save the City of Nashua \$2-\$3 million per year. When asked what the effect of the state's move from subsidizing 25% of the pension costs to zero, the Mayor said these impacts were considerable and negative.
- A member of the Board of Aldermen of Nashua; believes that the system should be solvent and be made solvent. The problem we have now is that we are asking current taxpayers to pay for the sins of the past, today and the future.
- NH Municipal Association – supported concept of bill. There are other factors impacting the amortization schedule over which the municipalities have no control. Noted that the Decennial Commission (a commission that is reestablished every 10 years to review the NHRS) will be meeting in July and that this issue should be undertaken by that body. The figure that was presumably amortized in 2007 was approximately \$2.7 billion and today that figure is \$5.3 billion. She feels the Decennial Commission should address the complexity of issues facing the pension system.
- Taxpayer ; explained the impact of the NH retirement system contributions upon property taxpayers; while state law may say the system must be 100% funded, the Constitution does not say this. HB 369 would lead to savings to the municipalities and thus, the taxpayer.

Information provided by the NHRS; no position on bill:

According to Gabriel Roeder Smith & Company (GRS), the New Hampshire Retirement System's independent actuary, Hb 369 would have reduced NHRS employer contribution rates in fiscal years 2020- 39, however, extending the amortization period as specified was expected to result in additional employer contributions of \$4.1 billion over the additional amortization period.

Testimony in Opposition

- Representatives of NH State Permanent Firefighters Association and NH Retired State Police Association
- bill echoes the past requests of the municipalities pleadings to reduce the cost of pensions. He believes that the burden shifts to other groups as a result of this bill.
- retirees have not received a cost of living raise for eight years and the impact of this proposed legislation will exacerbate that; the law prohibits any COLA until the system is 85% funded. an extension such as this proposed by the bill will cost more and COLA will be even further into the future.
- during the years the employees enjoy lower contributions to the retirement system, the employees paid their customary rate. *

Committee Report: Retained in Committee, 2017

Report after being retained: Inexpedient to Legislate, vote 17-0, Consent Calendar

Rep. Jeffrey Goley for Executive Departments and Administration. This bill would have extended the amortization for the unfunded accrued liability of the NH Retirement System from 30 to 40 years. Extending the amortization period another 10 years may sound good because it will lower payments for cities and towns, but by extending the time to pay off the unfunded accrued liability, the amount of money that cities and towns end up paying over time will significantly increase. Due to the increased costs to cities and towns, the committee recommends that this bill be found Inexpedient to Legislate.

Floor Action: Found Inexpedient to Legislate, voice vote

Final Action Killed by the House, voice vote

If I can provide further information on this, please let me know.

Archived: Wednesday, March 17, 2021 12:38:57 PM

From: [Miriam Simmons](#)

Sent: Friday, January 29, 2021 9:49:25 AM


To: [Miriam Simmons](#)

Subject: HB 390 Bill Briefs submitted by NHRS

Response requested: No

Importance: Normal

Attachments:

[NHRS_Bill_Brief_HB_390_1_27_21_HouseEDA.pdf](#) 

From: Pam Smarling <Pam.Smarling@leg.state.nh.us>

Sent: Tuesday, January 26, 2021 4:37 PM

To: ~House Executive Departments and Administration
<HouseExecutiveDepartmentsandAdministration@leg.state.nh.us>

Cc: Miriam Simmons <miriam.simmons@leg.state.nh.us>

Subject: Bill Briefs submitted by NHRS

TO: All Members of the House ED&A Committee,

Marty Karlon will be testifying on bills related to the NH Retirement System tomorrow. He registered prior to having his testimony finalized and Rep. McGuire asked me to send it along to you tonight.

I'll see you tomorrow a few minutes before 9:30.

Pam

Pam Smarling, Senior Committee Researcher
House Committee Research, Room 409, LOB
33 N. State St., Concord, NH 03301
(603) 271-3387



Archived: Wednesday, March 17, 2021 12:38:57 PM

From: [Griffin, John](#)

Sent: Thursday, January 28, 2021 2:47:20 PM

To: [~House Executive Departments and Administration](#)

Subject: John L. Griffin Written Testimony in Support of HB390

Response requested: No

Importance: Normal

Attachments:

[John L. Griffin Written Testimony in Support of HB390.pdf](#) 

Archived: Wednesday, March 17, 2021 12:38:57 PM

From: [Miriam Simmons](#)

Sent: Tuesday, January 26, 2021 6:29:20 PM

To: [Miriam Simmons](#)

Subject: HB 390 Bill Briefs submitted by NHRS

Response requested: No

Importance: Normal

Attachments:

[NHRS_Bill_Brief_HB_390_1_27_21_HouseEDA.pdf](#) [NHRS_Bill_Brief_HB274_1_27_21_HouseEDA.pdf](#) [NHRS_Bill_Brief_HB619_1_27_21_HouseEDA.pdf](#)

From: Pam Smarling <Pam.Smarling@leg.state.nh.us>

Sent: Tuesday, January 26, 2021 4:37 PM

To: ~House Executive Departments and Administration
<HouseExecutiveDepartmentsandAdministration@leg.state.nh.us>

Cc: Miriam Simmons <miriam.simmons@leg.state.nh.us>

Subject: Bill Briefs submitted by NHRS

TO: All Members of the House ED&A Committee,


Marty Karlon will be testifying on bills related to the NH Retirement System tomorrow. He registered prior to having his testimony finalized and Rep. McGuire asked me to send it along to you tonight.

I'll see you tomorrow a few minutes before 9:30.


Pam

Pam Smarling, Senior Committee Researcher
House Committee Research, Room 409, LOB
33 N. State St., Concord, NH 03301
(603) 271-3387



Archived: Wednesday, March 17, 2021 12:38:57 PM
From: dennis@rdcorrigan.com
Sent: Tuesday, January 26, 2021 5:20:08 PM
To: ~House Executive Departments and Administration
Subject: Testimony for HB390
Response requested: No
Importance: Normal
Attachments:
[Testimony on HB390 2021.docx](#) 

For tomorrow's hearing

Archived: Wednesday, March 17, 2021 12:38:57 PM
From: [Miriam Simmons](#)
Sent: Tuesday, January 26, 2021 9:44:13 AM
To: [Miriam Simmons](#)
Subject: FW: HB 274 and HB 390 - please pass both
Response requested: No
Importance: Normal
Attachments: [NashuaCitysealcolorjpeg_000.jpg](#) ;

-----Original Message-----

From: Schmidt, Jan <SchmidtJ@nashuanh.gov>
Sent: Tuesday, January 26, 2021 9:20 AM
To: ~House Executive Departments and Administration
<HouseExecutiveDepartmentsandAdministration@leg.state.nh.us>
Subject: HB 274 and HB 390 - please pass both

Of all years, of all the times I have ever worked with our budget, this year will stress our homeowners the most.

Please, support NH's communities, our homeowner, and our stressed budgets by passing both HB 274 and HB 390.

Respectfully,
Jan

Jan Schmidt
schmidtj@nashuanh.gov<<mailto:schmidtj@nashuanh.gov>>

Nashua's Ward 1 Alderman

[cid:B355A4DA-B6DD-4016-8963-28F38ED8634B@hsd1.nh.comcast.net.]



THE CITY OF NASHUA

"The Gate City"

Financial Services Division

Office of the Chief Financial Officer

January 28, 2021

The Honorable Carol McGuire, Chairman
House Executive Departments and Administration Committee
Legislative office Building Room 306
Concord, NH 03301

RE: HB 390-FN-L, relative to the amortization of the retirement system unfunded accrued liability

Dear Chairman McGuire and Committee Members:

For the record, I am John L. Griffin, Chief Financial Officer for the City of Nashua. The purpose of this communication is to provide information in support of HB390.

During June 2020, the Board of Trustees of the New Hampshire Retirement System voted to reduce the retirement system's investment assumption, lowering the assumed rate of return from 7.25% to 6.75%. Subsequent to this action, new Employer Rates for FY2022 and FY2023 were calculated.

Applying the increased employer rates to the estimated NHRS pensionable payroll for the City of Nashua in FY2022 results in an increase of approximately \$4.4 million. This \$4.4 million will increase the annual payments made by the City to NHRS to \$29.3 million during FY2022. This impact is significant in that for every \$2 million dollars that is added to the City's General Fund Operating Budget a 1% increase is added on to the tax rate. Therefore, this \$4.4 million increase will raise the tax rate 2% for this single cost item.

Adopting HB390 will have the effect of reducing the current NHRS employer rates which would be most helpful at this time to balance the competing needs of municipalities.

Respectfully submitted,

John L. Griffin
Chief Financial Officer

NHRS Bill Brief: HB 390-FN

Prepared for the House ED&A Committee

Summary: “AN ACT relative to the amortization of retirement system unfunded accrued liability.”

Analysis: “This bill extends the period for amortization of the retirement system unfunded liability as of 2017 by 5 years to 2044. The bill requires a recertification of rates to account for the change.”

Sponsors: Rep. O'Brien, Hills. 36.

Background

HB 390 would extend the period of amortization for the unfunded actuarial accrued liability (UAAL) as of June 30, 2017, from its current thirty (30) year period that would end in 2039 for another five (5) years to 2044. The 30-year amortization of the was included in House Bill 653 (Chapter 0268) in 2007, which passed both chambers with overwhelming majorities.

Note: Layered amortization for actuarial gains and losses incurred after June 30, 2017, was adopted by the Legislature in 2018. The outstanding UAAL balance as of June 30, 2017 (approximately \$5 billion), referred to as the “Initial UAAL,” remains scheduled to be paid by 2039. New two-year layers will be established as they occur in future biennial valuations and will be amortized over separate periods of no more than 20 years.

NHRS Opposition to HB 390

At its January 12, 2021 meeting, the NHRS Board of Trustees voted 11-0 to oppose HB 390 as counter to the Board’s fiduciary duty of prudence and adherence to sound actuarial practice. Among the factors contributing to this decision were:

- HB 390 defers a significant portion of the unfunded liability payoff into the 2040s, increasing the ultimate employer cost of paying down the unfunded liability by approximately \$1.4 billion. For every dollar an employer saves through 2039, that employer will have to pay \$2 back over the final five years of the revised amortization period.
- Exactly 30 years ago, a significant percentage increase to the 1992-93 employer contribution rates in the midst of an economic recession led to legislation that sought temporarily mitigate the increase by changing the actuarial method used to set the rates. This “temporary” solution, which remained in the law until 2007, contributed significantly to the current unfunded pension liability. It is important that we adhere to the funding plan, or we run the risk of compounding past mistakes.
- HB 390 would set a dangerous precedent, creating a template to refinance pension obligations at the expense of future generations. The Legislature, with the input from our actuaries, adopted a 30-year amortization plan commencing in 2010 to address this unfunded liability. This proposal constitutes a deviation from that plan and a step backwards in terms of the progress we have made since recognizing the liability.

Financial Considerations

According to Gabriel Roeder Smith & Company (GRS), the New Hampshire Retirement System's independent actuary, this proposal will reduce NHRS employer contribution rates in fiscal years 2024-39, however, extending the amortization period as specified will result in additional employer contributions of \$2.7 billion over the 5-year amortization period.

Note: The actuarial analysis is based on LSR 0471.0, which did not contain the rate recertification section that is included in the bill as introduced. The recertification will result in a reduction of employer contributions beginning two years earlier, in Fiscal Year 2022, which will further increase the employer cost between 2040-44.

Additional Information

Layered Amortization: In 2018, legislation was enacted to recognize actuarial gains and losses incurred after July 1, 2017, over closed periods of no more than 20 years. This is referred to as "layered amortization" of the UAAL. The outstanding UAAL balance as of June 30, 2017 (approximately \$5 billion), referred to as the "Initial UAAL," remains scheduled to be paid by 2039. New two-year layers will be established as they occur in future biennial valuations and will be amortized over separate periods of no more than 20 years. This approach will spread future actuarial gains and losses more evenly over time, avoid some of the potential employer contribution rate volatility as 2039 approaches, and provide a basis to deal with gains and losses incurred beyond 2039. Because it was only enacted recently, layered amortization has only a minor impact on the FY 22-23 contribution rates, although it did, in fact, slightly reduce the rate impact of the assumption changes.

Previous opposition to extended amortization: Similar legislation extending the amortization by 10 years was opposed by the Board in February 2017. That legislation was recommended ITL by this committee and killed by the House on a voice vote.

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TO HOUSE EXECUTIVE DEPARTMENTS AND ADMINISTRATION COMMITTEE,

My name is R. DENNIS CORRIGAN and I am testifying as a member of the public opposed to HB390.

I am a retired pension actuary and worked in an insurance company where I had responsibility for the Quotations Section and Research Section in its Group Actuarial Department dealing with Group Pensions. Later I worked in an actuarial consulting firm as a Group pension consultant to twenty-five clients with responsibility for installation, amendment and statutory valuation of pension plans.

I am a FELLOW, SOCIETY OF ACTUARIES. RETIRED and MEMBER, AMERICAN ACADEMY OF ACTUARIES, RETIRED.

I served on the NEW HAMPSHIRE DECENNIAL RETIREMENT COMMISSION as a Public Expert Member, in 2017, having been appointed by the NH Governor to this group that studied the NH Retirement System and recommended legislative changes.

I oppose House Bill 390 because in my professional opinion there are important public policy reasons that pension plans in both the public sector and private sector should be fully funded at all times in order to provide security to pension plan beneficiaries and keep plan sponsor pension costs to the minimum possible level.

While NH's public employees system is not the worst funded state plan in the nation, with a funded ratio at 60.8% as of June 30, 2019, the NHRS is very poorly funded compared with private sector plans. In 2019 the NHRS has an UAAL of \$5.9 billion.

No private pension plan would be permitted to operate indefinitely with a 60% funded ratio. The Pension Protection Act of 2006 (PPA) provided that large private sector pension plans will be considered at risk of defaulting on their liabilities if they have less than 80 percent funded ratios under standard actuarial assumptions. The NHRS actuarial assumptions are much weaker than standard actuarial assumptions.

Under the PPA, private Defined Benefit (DB) plans that are significantly underfunded must meet special requirements for accelerated funding and disclosing shortfalls to the PBGC.¹⁹ By 2011, all private DB plans pursued 100% funding by amortizing any shortfalls **over seven years** and increasing plan contributions accordingly.

Indeed NH looks bad compared with other state plans. The Tax Foundation says that in 2019 only "Twenty states have pension plans that are less than two-thirds funded, and five states have pension plans that are less than 50 percent funded."

The Fiscal Note says: "This bill extends the 30 year amortization period for the New Hampshire Retirement System (NHRS) unfunded actuarial accrued liability (UAAL) as of June 30, 2017 by 5 years from 2039 to 2044."

Surely it would be more accurate to say that this bill changes the 30 year amortization period to a 35 year period.

The bill adds \$2.3 billion to state liabilities in 2039. Without the bill no UAAL persists past 2039. With the bill the UAAL is still \$2.3 billion at that time.

Where will the extra \$2.3 billion come from?

Thank you for considering my testimony.

Bill as
Introduced

HB 390-FN-LOCAL - AS INTRODUCED

2021 SESSION

21-0471

10/08

HOUSE BILL ***390-FN-LOCAL***

AN ACT relative to the amortization of retirement system unfunded accrued liability.

SPONSORS: Rep. O'Brien, Hills. 36

COMMITTEE: Executive Departments and Administration

ANALYSIS

This bill extends the period for amortization of the retirement system unfunded liability as of 2017 by 5 years to 2044. The bill requires a recertification of rates to account for the change.

Explanation: Matter added to current law appears in ***bold italics***.
Matter removed from current law appears ~~in brackets and struck through.~~
Matter which is either (a) all new or (b) repealed and reenacted appears in regular type.

STATE OF NEW HAMPSHIRE

In the Year of Our Lord Two Thousand Twenty One

AN ACT relative to the amortization of retirement system unfunded accrued liability.

Be it Enacted by the Senate and House of Representatives in General Court convened:

1 1 Retirement System; Method of Funding; Amortization of Unfunded Liability. Amend RSA
2 100-A:16, II(e)(3) to read as follows:

3 (3) The unfunded liability as of July 30, 2017 shall be amortized through [~~2039~~
4 **2044**. Each subsequent change in liability as calculated in odd-numbered years shall be separately
5 amortized over a fixed period of no longer than 20 years.

6 2 Retirement System; Recalculation of Employer Rates; Recertification. Notwithstanding the
7 notice requirements of RSA 100-A:16, III, the board of trustees of the retirement system shall
8 recalculate employer contribution rates for the state fiscal years 2022 and 2023 to reflect the
9 requirements of RSA 100-A:16, II(e)(3) as amended by this act. Notwithstanding the notice
10 requirements of RSA 100-A:16, III, such employer contribution rates shall be effective for the
11 biennium beginning July 1, 2021, and the recertification of employer contribution percentages,
12 applicable beginning July 1, 2021, shall be provided to each employer within a reasonable period of
13 time not to exceed 30 days from the effective date of this section. The exception to the notice
14 requirements of RSA 100-A:16, III in this section shall be limited to the applicable employer
15 contribution rates for the biennium beginning July 1, 2021.

16 3 Effective Date. This act shall take effect July 1, 2021.

Fiscal Note

**HB 390-FN-LOCAL- FISCAL NOTE
AS INTRODUCED**

AN ACT relative to the amortization of retirement system unfunded accrued liability.

FISCAL IMPACT: State County Local None

STATE:	Estimated Increase / (Decrease)			
	FY 2021	FY 2022	FY 2023	FY 2024
Appropriation	\$0	\$0	\$0	\$0
Revenue	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	(\$13.7 million)
Funding Source:	<input checked="" type="checkbox"/> General	<input type="checkbox"/> Education	<input checked="" type="checkbox"/> Highway	<input checked="" type="checkbox"/> Other

**POLITICAL
SUBDIVISIONS:**

Revenue	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	(\$55.7 million)

*The New Hampshire Retirement System states it is not able to separate the fiscal impact of this legislation between county and local government, therefore the fiscal impact is shown together as political subdivisions.

METHODOLOGY:

This bill extends the 30 year amortization period for the New Hampshire Retirement System (NHRS) unfunded actuarial accrued liability (UAAL) as of June 30, 2017 by 5 years from 2039 to 2044. Employer contribution rates for FY22 and FY23 are unaffected by this proposed change, as the rates have already been certified, so there is no impact on employer expenditures in those fiscal years. As of June 30, 2019, the NHRS was 60.8% funded with an UAAL of \$5.9 billion. The proposal would decrease employer contributions during the initial amortization period and would cause the unfunded liability to decrease at a much slower rate.

Starting in FY24 through FY39 there would be approximately \$1.3 billion in savings in reduced employer contribution rates as a result of this bill. However, there will be additional employer contributions totaling \$2.7 billion over the additional five year extension proposed in the bill. The net impact of the additional 5 years of payments is an additional \$1.4 billion over the entire amortization period. The initial liability as of June 30, 2017 is currently scheduled to be paid off by June 30, 2039. Under the proposal, the initial liability as of June 30, 2039 would be approximately \$2.3 billion.

Assuming an annual rate of return of 6.75 percent and payroll growth of 2.75 percent per year (2.25 percent for teachers) the NHRS actuary determined the following:

Employer Pension Rates as a Percent of Payroll - State				
	Employees	Teachers	Police	Fire
Impact of Proposal	(1.57)%	n/a	(3.39)%	(3.49)%

Net Impact on State Employer Contributions

Expected Employer Dollar Increase (Decrease) Due to Proposal - State (\$ Millions)					
	Employees	Teachers	Police	Fire	Total*
FY 2021	0.00	N/A	0.00	0.00	0.00
FY 2022	0.00	N/A	0.00	0.00	0.00
FY 2023	0.00	N/A	0.00	0.00	0.00
FY 2024	(10.20)	N/A	(3.31)	(0.17)	(13.68)
FY 2025	(10.48)	N/A	(3.40)	(0.18)	(14.06)
FY 2026	(10.77)	N/A	(3.49)	(0.18)	(14.44)

Employer Pension Rates as a Percent of Payroll - Political Subdivisions				
	Employees	Teachers	Police	Fire
Impact of Proposal	(1.57)%	(2.33)%	(3.39)%	(3.49)%

Net Impact on Political Subdivisions Employer Contributions

Expected Employer Dollar Increase (Decrease) Due to Proposal - Pol. Sub. (\$ Millions)					
	Employees	Teachers	Police	Fire	Total*
FY 2021	0.00	0.00	0.00	0.00	0.00
FY 2022	0.00	0.00	0.00	0.00	0.00
FY 2023	0.00	0.00	0.00	0.00	0.00
FY 2024	(12.18)	(29.57)	(8.85)	(5.08)	(55.69)
FY 2025	(12.52)	(30.24)	(9.09)	(5.22)	(57.07)
FY 2026	(12.86)	(30.92)	(9.34)	(5.37)	(58.49)

Expected NHRS Total UAAL Contributions Through 2044 Net Increase (Decrease) Due to Proposal (\$ Millions)				
Employees	Teachers	Police	Fire	Total
\$ 442	\$ 572	\$ 240	\$ 104	\$ 1,358

AGENCIES CONTACTED:

New Hampshire Retirement System