Senate Finance Committee

Deb Martone 271-4980

SB 72-FN-A-LOCAL, relative to a state share of retirement system contributions by employers.

Hearing Date: January 28, 2021

Members of the Committee Present: Senators Daniels, Reagan, Giuda, Hennessey, Morse, D'Allesandro and Rosenwald

Bill Analysis: This bill provides that the state shall pay 15 percent of contributions of retirement system employers other than the state for group I teachers and group II members.

Sponsors:

Sen. Rosenwald	Sen. Whitley	Sen. Watters
Sen. D'Allesandro	Sen. Perkins Kwoka	Sen. Soucy
Sen. Prentiss	Sen. Kahn	Sen. Sherman
Rep. O'Brien	Rep. Espitia	

Who supports the bill: Senators Watters, Whitley, Perkins Kwoka and Sherman; Representatives Telerski, Pedersen, Mangipudi, Klee, Schmidt, Dutzy, Nutting-Wong, King, Newman, Espitia and O'Brien; Curtis Lalonde; Sylvia Hartmann; Karen Gelineau; Mary Till; Judith Reed; Nikki Fordey; Robert Lehmenkuler; Joshua English; Brett Nelson; John Daly; Erin Stevens; Terri Donovan; Mitchell Wolper; Jane McDermott; David Dick; Amy Snow; Danielle Basora; Jason Weisbrot; Becky Benvenuti; Joan Hamblet; Laura Buono; Arthur Beaudry; Todd Selig; Donna Hanson; Lisa Drabik; Julia Griffin; Phillip Warren; Matthew Frye; David Cressman; Jeanne Beaudin; Kenneth Mertz; Brian Ryll; James Donchess; Jerry Frew; John Griffin; Scott Dunn; Barrett Christina.

Who opposes the bill: Jean Kimball; Dennis Corrigan; Neal Kurk.

Who is neutral on the bill: Marty Karlon; Jennifer Boucher.

Summary of testimony presented in support:

Senator Rosenwald, Prime Sponsor:

- This bill is the Taxpayer Rescue Act. It partially restores the state's contribution to employer costs for municipal employees.
- Decades ago when the state opened the pension to municipal employees, they were promised help to defray the costs as an enticement to join. For decades, the state did keep this promise with a small decrease during the Great Recession of 2009-2010.

- In 2011 the Legislature eliminated completely what was then 25 percent of the employer cost contribution for municipal employees.
- The cost didn't go away. It's had to be picked up ever since by property taxpayers who fund municipal budgets. For Nashua alone, that has cost over the past decade a total of more than $100 million.
- This is an unsustainable burden on property taxpayers that affects all of us, homeowners, renters and businesses. We all pay property taxes.
- In Nashua's budget for the next year, these homeowners, renters and businesses will be asked to pay more than an extra $10 million in property taxes.
- Senator Rosenwald is not asking the state to restore the original 35 percent, or even the 25 percent the state last paid in 2010. This bill would ask the state to share the burden of employer costs by restoring 15 percent of the payment responsibility.
- SB 72-FN-A-LOCAL comes at a cost to the state. But it is a cost that had previously been discussed and agreed upon for decades.
- If we say today that it is not sustainable for the state with its myriad of revenue sources, how can we possibly argue that it is sustainable for our cities and towns, with only the property tax as a revenue source?
- Our strong communities depend on our great teachers, police and firefighters. They help build the foundation for a strong New Hampshire.
- Let's do what is right and fair. Let's stop increasing municipal property taxes and share the burden with our local partners.

Nikki Fordey, Vice Chair, Litchfield Budget Committee:

- The retirement contributions have caused an exponential increase in property taxes. That level of growth is not sustainable. The town has experienced numerous conversations and made difficult decisions sacrificing needs for the town and its schools in order to not overburden the taxpayers.
- SB 72-FN-A-LOCAL is a step in the right direction. It's about doing what's right for the taxpayers. It is not a partisan issue.
- The increase in costs year-over-year or every two years for the Town of Litchfield has been in the 15-20 percent range. This forces the town to cut back on necessary services. People will continue to suffer.
- Senator Giuda asked Ms. Fordey to identify the source of the significant increases in the retirement fund contributions for Litchfield. Ms. Fordey indicated resources provided by the New Hampshire Municipal Association stated part of the funds go to investment opportunities. When the rate of return for the retirement system is not realized, the cities and towns must make up the difference. Senator Giuda inquired if the underlying driver for the cost of retirement benefits is the salaries paid by individual communities. Ms. Fordey agreed that would be one factor. Senator Giuda stressed it is driven by the wage scales that set the percentages of retirement contributions. He stated his small town is dealing with the very same issues. It may not be appropriate for the state to pick up the cost differential for communities that are paying wages that are significantly higher, perhaps, than they can afford. Ms. Fordey explained on the municipal side, her town has been fairly strict at keeping increases at less than 3 percent. Some of the wage scales are part of collective bargaining

agreements. They have attempted to keep those costs down. On the teachers' side in Litchfield, the increase in retirement contributions in one fiscal year exceeded $400,000. On the municipal side, if you are a town that has a tax cap, like Litchfield, it makes it even more difficult to make any kind of changes or respond to any growth in town when so much of that is taken up by an increase that has been shifted from the state down to the municipalities. Ms. Fordey agreed trying to get a handle on wages helps, but much more goes into it than what is within a budget committee's reach.

- Senator Rosenwald inquired if Litchfield were paying the same salaries today that it was paying 10 years ago when the state was paying 25 percent of the employer cost, would Litchfield still be paying 25 percent more today than it was paying 10 years ago? Ms. Fordey stated she does not believe so.

Becky Benvenuti, Government Finance Advisor, New Hampshire Municipal Association:

- Restoring the state's share of employer costs for police, teachers and firefighters has been a longstanding policy of NHMA.
- While most political subdivisions in New Hampshire also participate in the retirement system for their employee members, participation is mandatory under statute for police, fire and teacher members.
- The state's contribution, which was originally 40 percent in 1967 when joining the system before being reduced to 35 percent in 1977, was also mandatory. The legislation amending the statute in 2011 to eliminate completely the state's 35 percent share for police, fire and teacher employer costs, has had one of the largest fiscal impacts upon our municipalities in decades.
- In just the 8-year period from 2013 to 2020 the elimination of the state share has amounted to an increase in employer contribution costs required to be paid by political subdivisions of over $720 million.
- The retirement system's original $5.9 billion unfunded liability is amortized over a 30-year period ending in 2039. Of that amount, 80 percent is required to be paid through the employer contributions.
- Up until 2013 the state shared with political subdivisions the obligation to fully pay this longstanding liability. The elimination of the state's share of the employer costs has down shifted the state level of financial responsibility to the local taxpayers, whose municipal, county and local school property tax rates have all increased over the past 8 years, in order to help raise the property tax revenue necessary to fund this additional $729 million in municipal, school, school district and county employer costs, which are mandatory for police, firefighters and teachers.
- Although a 15 percent contribution, estimated to be $53 million in FY 2022 according to the fiscal note in the bill, would restore less than the state's original 35 percent share, estimated to be $123.62 million, SB 72-FN-A-LOCAL does provide significant and much needed relief to political subdivisions, and would help offset the major increase which becomes effective July 1.

James Donchess, Mayor, City of Nashua:

- These major increases in costs are not driven by any local wage increases. That has very little to do with this. If you talk with Mr. Karlon or Mr. Lagos at the

New Hampshire Retirement System, they will tell you 80 percent of the money we are paying in currently is to recapitalize, or build up the assets of the retirement system. Only 20 percent of the money the cities and towns are paying are related to covering the retirement benefits of employees who are currently working for the cities and towns.

- We are not complaining about increases in pension costs related to any raises given at the local level.
- In the 1990s and the twenty-first century prior to 2010, unwise decisions were made at the state level which caused the retirement system, the percentage of long-term liabilities that could be covered by the current assets of the system, for about $10 billion, to decline to approximately 60 percent. It used to be 100 percent funded, and as a result of these decisions made at the state level, it dropped to 60 percent funded. Since that time, there has been a legislative mandate to go to 100 percent funding. The only way to do that is to collect far, far more than what is required to pay for the pensions of current employees.
- Another decision made at the state level causing a big increase from the current year to next year was made by the New Hampshire Retirement System to reduce the assumed rate of return on the pension assets from 7.25 to 6.75. This means you need to have more money from the cities and towns to recapitalize the system.
- If the system were 100 percent funded, this change from 7.25 to 6.75 wouldn't be that significant. But because we are paying 5 times what is required to meet the costs for current employees, when you reduce the rate of return it has a very substantial affect on increasing the cost.
- This affects all cities and towns. Everyone has teachers, fire and police.
- Nashua's cost is going up $4.4 million unrelated to increases in wages. There is an increase of 2-3 percent based on wage increases; no problem. The increase related to the reduction in the assumed rate of return will cost Nashua $4.4 million.
- The cities and towns are a victim of two things. First, victims of a broken promise. Municipalities entered the state pension system decades ago based upon the inducement that the state would pay 40 percent of costs. Probably you wouldn't have the cities and towns in the state pension system had that promise not been made. The cities and towns are victims of mismanagement of the system.
- Municipalities need relief. This affects everyone. We cannot afford to be hit by these major increases right now. We need your help.

<u>John Griffin</u>, CFO, City of Nashua:

- The Board of Trustees for the New Hampshire Retirement System voted in June 2020 to reduce the retirement system's investment assumption, lowering the assumed rate of return from 7.25 percent to 6.75 percent. This is quite significant. Subsequent to this action, new employer rates for FY 2022 and FY 2023 were calculated. Applying the increased employer rates to the estimated NHRS pensionable payroll for the City of Nashua in FY 2022 results in an increase of approximately $4.4 million. This $4.4 million will increase the annual payments made by Nashua to NHRS to $29.3 million during FY 2022.

- This impact is significant for Nashua. For every $2 million that is added to the city's General Fund Operating Budget, a one percent increase is added to the tax rate. Therefore, the $4.4 million increase will raise the tax rate approximately 2 percent for this single cost item.
- The impact of adopting SB 72-FN-A-LOCAL, which has the state contributing 15 percent of the employer rates, will reduce Nashua's NHRS employer pension costs by approximately $3.7 million, providing much needed relief to Nashua taxpayers.
- Senator Daniels inquired if the fact that NHRS put out an expectation that you're going to get 6.75 percent return at a time when the Northeast CPI is 1.3 percent, does that exacerbate the problem? Mr. Griffin explained they've seen two relatively significant actions in the last four years. In 2018 the assumed rate of return was 7.75 percent. It was reduced to 7.25. Most recently 7.25 percent was reduced to 6.75 percent. NHRS has an investment team that invests billions of dollars in the funds. The actuaries and the money managers are comfortable with the 6.75 percent, even though the CPIU is slightly less than two percent on a 3-year rolling average.

Representative Michael O'Brien:

- Representative O'Brien is Vice President of Nashua's Board of Aldermen, and serves on the city's Budget Committee and Finance Committee. He is a proud, retired member of Nashua Fire and Rescue, having served 35 years. He now receives his benefits from the New Hampshire Retirement System.
- "Promises made, promises kept" is a very worthwhile statement. The goal of 1967 has not been maintained in 2020.
- It has cost the citizens of Nashua much money.
- The two percent increase in the tax rate for Nashua is for this one, single item.
- It hurts much needed services, can be used to "weaponize" what you want to pay your employees, and adds to the cost of living.
- Nashua compensates its qualified municipal employees accordingly.
- Nothing has been done to fix the retirement system.
- With this bill we are asking the state to pay its fair share.
- Every community is feeling this pinch,
- Please listen to the New Hampshire Municipal Association, your cities and towns.
- This is a hidden tax burden. If the state isn't paying it, someone is paying it.
- By referring this obligation back to the local communities, you have increased their tax burden to meet the needs of the pension system.

Summary of testimony presented in opposition:

Dennis Corrigan:

- Mr. Corrigan is a retired pension actuary, and worked in an insurance company setting the prices for their group pension clients. Later he worked in an actuarial consulting firm as a group pension consultant to 25 clients with responsibility for installation, amendment and statutory valuation of pension plans. Mr. Corrigan served on the New Hampshire Decennial Retirement

Commission as a public expert member in 2017. This group studied the NH Retirement System and recommended legislative changes.

- There are important public policy reasons that pension plan sponsors should not be subsidized by outside entities.
- If this bill were enacted as drafted, the economic costs of pensions for employees of the town of Pittsfield would partially be borne by taxpayers of the city of Concord, via subsidy to the New Hampshire state budget and vice versa.
- Sound decisions on changes to the pension plans of towns and cities will be attenuated and diluted. The incentives to maintain appropriate benefit levels will be reduced. The incentives to boost benefits to unreasonable levels will be augmented.
- At first no change in total New Hampshire-wide system costs will occur. But over time, local politicians will feel pressure to increase pension benefits in their towns because their taxpayers will pay less than the entirety of the costs. Their taxpayers are suffering from paying part of the increase in costs enacted in other towns.
- In the future it will be much harder for the Legislature to resist calls to increase the share borne by the state from 15 percent to a higher percentage, than it is to resist this call to increase it from zero to 15 percent.

Neal Kurk, Board Member, Granite State Taxpayers:

- For almost six decades the state has reduced the share of municipal contributions from 40 percent to zero. That was done for two reasons. One obvious reason was to balance the state budget. To the extent we don't have to make these payments, there's more money to spend on other state services. The more important reason was to ensure the municipalities were responsible for the full cost of their decisions; in this case, hiring employees.
- Today it is imprudent to add a very expensive new program in tight financial times. This program would cost over $100 million in the new budget, on top of a projected deficit of similar size in the current budget.
- The intention is to reduce local employers' costs to participate in the retirement system. However, whether the reduced costs to municipalities would translate into lower property taxes, or larger local budgets, is unknown.
- This is an effort to transfer the tax burden from local property taxpayers to state taxpayers, such as payers of the interest and dividends tax and payers of business taxes. Or to force a reduction through the budget in state services.
- This is imprudent at this time, and as a matter of policy and principle, it is undesirable for the state to subsidize municipalities in this way.

Neutral Information Presented:

Marty Karlon, New Hampshire Retirement System:

- The New Hampshire Retirement System does not take a position on this bill. Mr. Karlon submitted a written briefing on the fiscal note of the bill, and provided background on the history of the state contribution towards local teachers, police and fire costs over the prior decades.

- This bill would not change the employer contribution rates for NHRS, or have any actuarial impact. They would simply be receiving some of the contributions from the state that would otherwise be paid for by the cities and towns.
- Senator Daniels inquired if cities and towns are required to use the New Hampshire Retirement System. Mr. Karlon explained membership is mandatory for full-time teacher, police and fire members. Communities do have the option to participate for their employees or not. Once the decision is made, it's rather difficult to move away from.

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Date Hearing Report completed: February 1, 2021