

Policy update

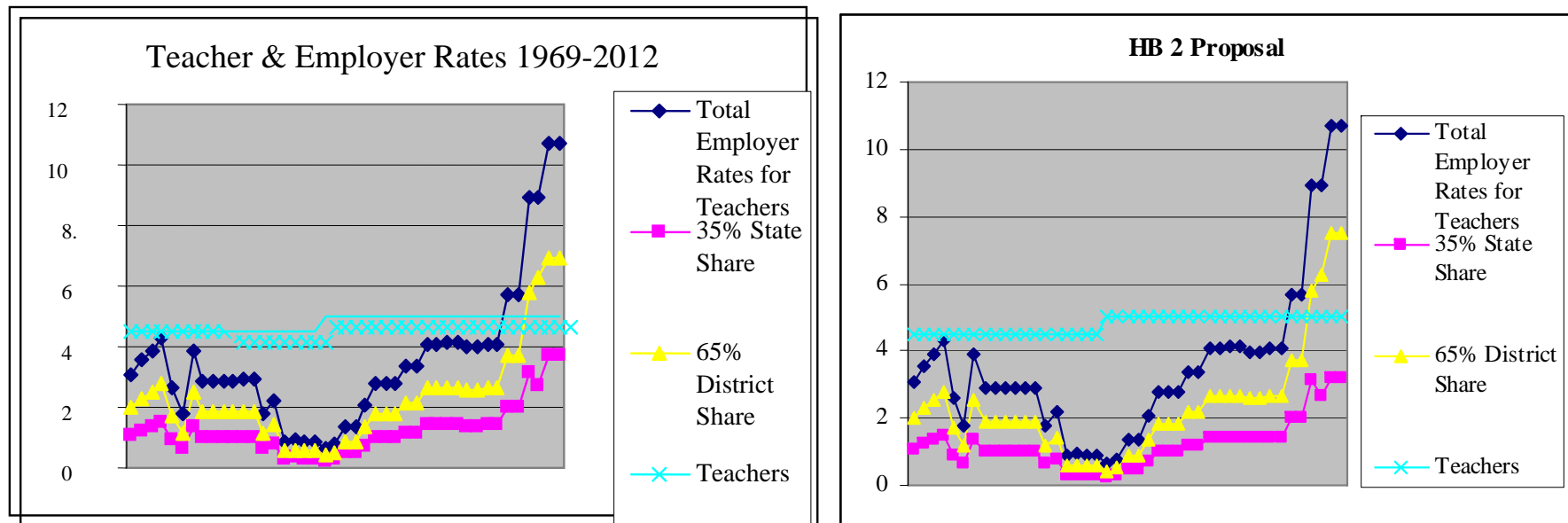
Posted May 26, 2009

The New Hampshire Senate is working on the House passed version of HB2. It contains two measures to shift the cost of retirement rate increases from the state to municipalities, counties and school districts and, ultimately, to public employees.

1. The cost shifting to municipalities, counties and school districts results from the change in the state's share of employer contributions on behalf of teachers, police officers and firefighters.

The state had been paying 35% of the cost, with the political subdivision share at 65%. HB 2 reduces the state's share to 30%, increasing the local share to 70% for FY 2010 and 25%/75% in FY 2011. The changes sunset in 2012, returning to the 35%/65% share.

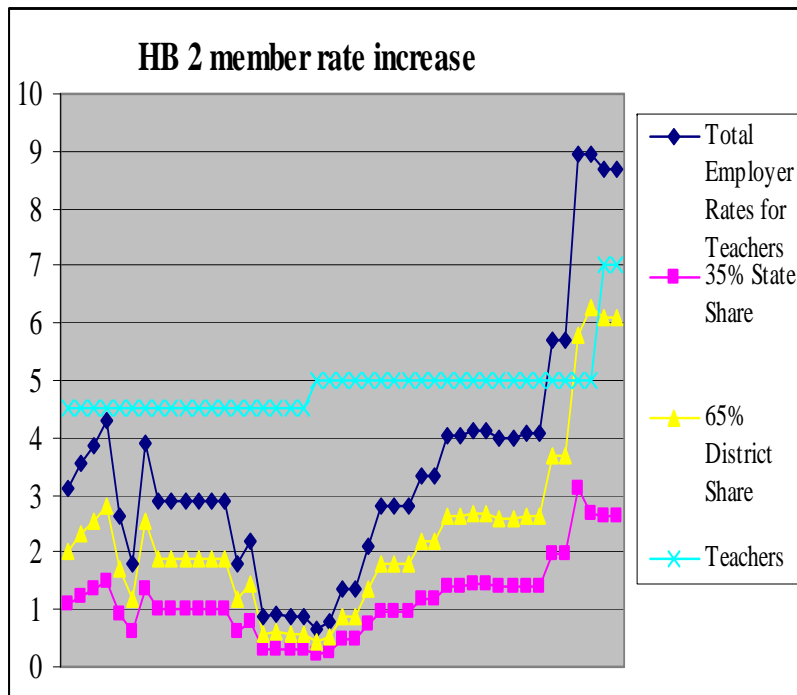
The two graphs below show the impact in rates for school districts. The numbers on the left axis are percentages of gross pay.



The first graph shows the historical context.

- The steady light blue line shows the contributions made by teachers: 4.6% of pay until 1988; 5% of pay thereafter.
- The dark blue line shows the total employer contribution (state plus school district share). It was particularly low after the legislature artificially reduced the employer rates in 1991. Rates are scheduled to continue to increase, largely due to the years of insufficient employer contribution levels, also known as the “procrastination penalty.”
- The pink line is the state's 35% share.
- The yellow line is the districts' 65% share.

The graph on the right depicts the House proposal to reducing the state's 35% share to 30%. The pink line, indicating the state's share flattens, while the school district's share continues to climb.



2. Cost shifting to members

The final graph shows how HB 2 shifts a portion of the increase to teachers by increasing their contribution rate from 5% to 7%, without any increase in pension benefits. The legislation also requires the retirement system to recalculate the employer contributions, to allow a reduction due to the new revenue from members.

If HB 2 passes with these provisions, teachers will again be paying a greater share than the district. The employee rate increases, like the employer increases, are scheduled to sunset in 2012.

The proposal is not appropriate for a defined benefit plan – the employer bears the risk: benefiting from low contribution rates in good years and paying increased rates when required by actuarial analysis.

A member rate increase is needed, for the purpose of adding a cost of living adjustment to the benefit plan, not to subsidize the employer rates.

Note: The examples provided here depict the rates by teachers and on behalf of teachers. Separate graphs are needed to indicate the rate changes for employees, police and firefighters.