

HB 620-FN – AS INTRODUCED

2013 SESSION

13-0631
10/03

HOUSE BILL **620-FN-LOCAL**

AN ACT relative to the adjustment of member and employer contribution rates in the retirement system.

SPONSORS: Rep. Weyler, Rock 13; Rep. Kurk, Hills 2; Rep. Sedensky, Rock 13; Sen. Reagan, Dist 17

COMMITTEE: Executive Departments and Administration

ANALYSIS

This bill provides that contribution rates for members in the retirement system and employers shall be calculated by assigning one half of the biennial change to the liabilities of the system to each.

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 Matter which is either (a) all new or (b) repealed and reenacted appears in regular type.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 Thirteen

AN ACT relative to the adjustment of member and employer contribution rates in the retirement system.

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

1 1 Retirement System; Method of Financing; Calculation of Contribution Rates. Amend
2 RSA 100-A:16 to read as follows:

3 100-A:16 Method of Financing. All of the assets of the retirement system shall be credited,
4 according to the purpose for which they are held, between 2 funds, namely, the member annuity
5 savings fund and the state annuity accumulation fund. Each of the funds shall be subdivided on
6 account of the various member classifications. In making the determinations required under this
7 section for financing the retirement system, the board of trustees shall use the entry age normal
8 funding methodology. The board of trustees shall direct the system's actuary to prepare biennial
9 valuations of the system's assets and liabilities commencing with the valuation prepared as of June
10 30, 2007. Such biennial valuation shall be the basis for determining the annual contribution
11 requirements of the system until the next following biennial valuation.

12 I. Member Annuity Savings Fund.

13 (a) The member annuity savings fund shall be a fund in which shall be accumulated the
14 contributions deducted from the compensation of members to provide for their member annuities
15 together with any amounts transferred thereto from a similar fund under one or more of the
16 predecessor systems. Such contribution shall be, for each member~~[-and except as provided in~~
17 ~~RSA 100-A:16, II a,]~~ dependent upon the member's employment classification at the rate determined
18 in accordance with the following table:

19 (1) Group I members, 7.00

20 (2) Group II permanent fireman members, 11.80

21 Group II permanent police members, 11.55

22 ***Provided that beginning July 1, 2013 the rates shall be adjusted following each valuation***
23 ***of the system's assets and liabilities by adding or subtracting the rate percent determined***
24 ***by assigning one-half of the increase or decrease in the liabilities of the system since the***
25 ***most recent valuation with respect to the particular members of the various member***
26 ***classifications as shown by actuarial valuation, and, in addition, adding or subtracting***
27 ***one-half of the increase or decrease in the rates for unfunded accrued liability determined***
28 ***in subparagraph II(e).***

29 (aa) The board of trustees shall certify to the proper authority or officer responsible for
30 making up the payroll of each employer, and such authority or officer shall cause to be deducted from

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1 the compensation of each member, except group II members who are in vested status before January
2 1, 2012 with creditable service in excess of 40 years, and group II members who commenced service
3 on or after July 1, 2011 or who have not attained vested status prior to January 1, 2012 with
4 creditable service in excess of 42.5 years as provided in RSA 100-A:5, II(b) and RSA 100-A:6, II(b), on
5 each and every payroll of such employer for each and every payroll period, the percentage of earnable
6 compensation applicable to such member. No deduction from earnable compensation under this
7 paragraph shall apply to any group II member who is in vested status before January 1, 2012 with
8 creditable service in excess of 40 years, and any group II member who commenced service on or after
9 July 1, 2011 or who have not attained vested status prior to January 1, 2012 with creditable service
10 in excess of 42.5 years as provided in RSA 100-A:5, II(b) and RSA 100-A:6, II(b), and this provision
11 for such members shall not affect the method of determining average final compensation as provided
12 in RSA 100-A:1, XVIII. In determining the amount earnable by a member in a payroll period, the
13 board may consider the rate of compensation payable to such member on the first day of a payroll
14 period as continuing throughout the payroll period and it may omit deduction from compensation for
15 any period less than a full payroll period if such person was not a member on the first day of the
16 payroll period, and to facilitate the making of deductions it may modify the deduction required of any
17 member by such an amount as shall not exceed 1/10 of one percent of the annual earnable
18 compensation upon the basis of which such deduction is made. The amounts deducted shall be
19 reported to the board of trustees. Each of such amounts, when deducted, shall be paid to the
20 retirement system at such times as may be designated by the board of trustees and credited to the
21 individual account, in the member annuity savings fund, of the member from whose compensation
22 the deduction was made.

23 (b) The deductions provided for herein shall be made notwithstanding that the minimum
24 compensation provided for by law for any member shall be reduced thereby. Every member shall be
25 deemed to consent and agree to the deductions herein provided as a condition of his *or her*
26 membership.

27 (c) [Repealed.]

28 (d) The accumulated contributions of a member withdrawn by the member, or paid to his
29 or her estate or designated beneficiary in event of his or her death in service, shall be paid from the
30 member annuity savings fund. Upon the retirement of a member, his or her accumulated
31 contributions shall be transferred from the member annuity savings fund to the state annuity
32 accumulation fund.

33 (e) With respect to all employees of any employer, such employer may pick up the
34 employee contributions required by this section for all compensation earned after July 1, 1983; and
35 the contributions so picked up shall be treated as employer contributions in determining federal tax
36 treatment under the United States Internal Revenue Code; however, each employer shall continue to
37 withhold federal income tax based upon these contributions until the Internal Revenue Service, or

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1 the federal courts, rule that, pursuant to section 414(h) of the United States Internal Revenue Code
2 (1954), as amended, these contributions shall not be included as gross income of the employee until
3 such time as they are distributed or made available. The employer shall pay these employee
4 contributions from the same source of funds which is used in paying earnings to the employee. The
5 employer may pick up these contributions by a reduction in the cash salary of the employee.
6 Employee contributions picked up shall be treated for all purposes of this section in the same manner
7 and to the same extent as employee contributions made prior to the date picked up.

8 II. State Annuity Accumulation Fund.

9 (a) The state annuity accumulation fund shall be the fund in which shall be accumulated
10 all reserves for the payment of all state annuities payable from contributions made by employers,
11 any amounts transferred thereto from a similar fund under one or more of the predecessor systems,
12 amounts transferred from the member annuity savings fund, and all amounts paid to the system by
13 or on account of call, substitute, or volunteer firemen and from which shall be paid all benefits
14 payable under the system other than those payable from the member annuity savings fund.

15 (b) The contributions of each employer for benefits under the retirement system on
16 account of group II members shall consist of a percentage of the earnable compensation of its
17 members to be known as the “normal contribution,” and an additional amount to be known as the
18 “accrued liability contribution;” provided that beginning with state fiscal year 2013 and for each
19 state fiscal year thereafter, any employer shall pay the full amount of such total contributions. The
20 rate percent of such normal contribution, including contributions on behalf of group II members
21 whose group II creditable service is in excess of 40 years, in each instance shall be ~~[fixed on the basis~~
22 ~~of]~~ **determined by assigning one half of the increase or decrease in** the liabilities of the system
23 **since the most recent valuation** with respect to the particular members of the various member
24 classifications as shown by actuarial valuation, except as provided in subparagraph (i).

25 (c) The contributions of each employer for benefits under the retirement system on
26 account of group I members shall consist of a percentage of the earnable compensation of its
27 members to be known as the “normal contribution,” and an additional amount to be known as the
28 “accrued liability contribution;” provided that beginning with state fiscal year 2013 and for each
29 state fiscal year thereafter, any employer shall pay both normal and accrued liability contributions.
30 The rate percent of such normal contribution in each instance shall be ~~[fixed on the basis of]~~
31 **determined by assigning one half of the increase or decrease in** the liabilities of the system
32 **since the most recent valuation** with respect to the particular members of the various member
33 classifications as shown by actuarial valuation, except as provided in subparagraph (i).

34 (c-1) For state fiscal year 2012, the contributions of each employer for benefits under the
35 retirement system on account of group II and group I teacher members of employers other than the
36 state shall be calculated as provided in subparagraphs (b) and (c) provided that the state shall pay
37 \$3,500,000 of such total contributions.

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1 (d) [Repealed.]

2 (e) Immediately following the actuarial valuation prepared as of June 30 of each fiscal
3 year, the board shall have an actuary determine the amount of the unfunded accrued liability for
4 each member classification as the amount of the total liabilities of the state annuity accumulation
5 fund on account of such classification which is not dischargeable by the total of the funds in hand to
6 the credit of the state annuity accumulation fund on account of such classification, and the aforesaid
7 normal contributions to be made on account of the members in such classification during the
8 remainder of their active service. The amount so determined with respect to each member
9 classification shall be known as the “unfunded accrued liability” with respect to such classification.
10 On the basis of each such unfunded accrued liability, the board shall have an actuary determine the
11 ~~[level]~~ **increase or decrease in** annual contribution required to discharge such amount over a
12 period of 30 years or the maximum period allowed by standards adopted by the Government
13 Accounting Standards Board, whichever is less **and assign one-half of such increase or decrease**
14 **to be assessed as rates charged to employers.**

15 (f) The total amount payable to the state annuity accumulation fund in each year on
16 account of each member classification shall not be less than normal contribution rate multiplied by
17 the total compensation earnable by all members in such classification for such year, plus the amount
18 of the accrued liability contribution ~~[necessary to liquidate the unfunded accrued liability on behalf~~
19 ~~of such classification as]~~ determined by the actuary under subparagraph (e) above.

20 (g) All interest and dividends earned on the funds of the retirement system shall be
21 credited to the state annuity accumulation fund. The board of trustees shall allow interest on the
22 individual accounts of members in the member annuity savings fund and shall annually transfer
23 such interest amount from the state annuity accumulation fund. The rate of interest for the calendar
24 year beginning January 1 shall be 2 percentage points less than either the most recent board of
25 trustees approved assumed rate of return or the actual rate of return, whichever is lower, for the
26 immediately preceding fiscal year as reported in the comprehensive annual financial report (CAFR)
27 as approved and accepted by the board of trustees by December 1 of each year, provided the rate
28 shall not be less than zero. Such interest shall be compounded at an annual rate and shall be
29 prorated and credited to the member annuity savings fund to the date of processing upon
30 termination of active service for any reason including withdrawal, retirement, or death.

31 (h) [Repealed.]

32 (i) If the actuarially determined normal contribution rate as set forth in subparagraphs
33 (b) and (c) on account of any of the various member classifications shall be negative in any fiscal
34 year, then the excess amount resulting from the difference between zero and the negative actuarially
35 determined normal contribution rate shall be used to reduce the employee contribution rate for that
36 member classification in that fiscal year.

37 (j) [Repealed.]

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1 ~~[II a.(a) Notwithstanding the method of calculating member and employer contributions~~
2 ~~under this section, if for any year the board of trustees certifies that within a member classification~~
3 ~~the employer rates determined under paragraph III have lowered to require them to be equal to the~~
4 ~~member rates under paragraph I, then for all subsequent years following such certification the~~
5 ~~employer rates and the members rates for such member classification shall continue to be equal~~
6 ~~whether the system liabilities increase or decrease.~~

7 ~~(b) The provisions of subparagraph (a) shall not take effect and shall be inapplicable to~~
8 ~~the retirement system calculation of contribution rates under this section if such provisions of~~
9 ~~subparagraph (a) would violate the requirements set forth in U.S. Treasury Regulation 1.401-1.]~~

10 III. Employer Contributions.

11 (a) On or before the first day of October next preceding each regular session of the state
12 legislature, the board of trustees shall certify to the commissioner of administrative services the
13 amounts which will become due and payable by the state during the biennium next following to the
14 retirement system and it shall be the duty of the commissioner of administrative services in
15 preparing the executive budget for each ensuing biennium to include in the budget the amounts so
16 certified which amounts shall be appropriated by the legislature. The amounts so certified under
17 this subparagraph shall include the unfunded accrued liability of the retirement system. The annual
18 employer contribution requirements effective July 1, 2008 and as calculated each year thereafter
19 shall not be less than the employee contribution rates under RSA 100-A:16, I(a).

20 (b) A county, city, town, school district, or other political subdivision of the state having
21 any employee members who are paid directly by the state but for whom the staff is later reimbursed
22 for the part of their compensation not chargeable to state funds shall likewise reimburse the state for
23 that part of the contribution made by the state to this system which is based on such part of
24 compensation not chargeable to state funds.

25 (c) At the beginning of each year commencing on the first day of July the board of
26 trustees shall certify to each employer other than the state the percentage rates of contribution due
27 the system from each such employer, and shall assess upon each such employer such percentages of
28 the earnable compensation of members in its employ, and it shall be the duty of the treasurer or
29 other disbursing officer of each such employer to pay to the board of trustees such portion of the
30 annual amount so assessed at such times and in such manner as the board of trustees may prescribe.
31 Each such employer is hereby authorized to appropriate the sums necessary for the payment of such
32 assessments. The annual employer contribution requirements effective July 1, 2008 and as
33 calculated each year thereafter shall not be less than the employee contribution rates under
34 RSA 100-A:16, I(a).

35 (d) Notwithstanding RSA 100-A:16, III(a), the New Hampshire retirement system board
36 of trustees shall, within a reasonable period of time not to exceed 30 days from the effective date of
37 this subparagraph, certify to the commissioner of administrative services the amounts that will

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1 become due and payable by the state during the biennium beginning July 1, 2009 based upon a state
2 employee group other post-employment benefit (OPEB) plan balance as of July 1, 2009 for the state
3 medical plan subtrust of \$0.00. Such certification shall in all other respects be based upon the data
4 and assumptions used to calculate the state employer rate as certified in September 2008. In no
5 event shall the board of trustees certify a rate in any subsequent year based upon payments made
6 from the medical plan subtrust to the state prior to July 1, 2009.

7 III-a. [Repealed.]

8 III-b. Every employer shall annually report to the retirement system the annual base pay
9 paid to each member.

10 IV. [Repealed.]

11 V. Notwithstanding any other provision of law any member contributions deducted by an
12 employer, or any employer assessments or contributions not remitted at the times designated by the
13 board of trustees, shall be subject to interest on the amount due at the rate of one percent for each
14 month or fraction thereof that they remain unpaid. For reasonable cause, the board may abate all or
15 any part of the interest.

16 VI. Every employer shall report monthly to the retirement system all compensation of group
17 II members that is attributable to extra or special duty. When an employer provides extra or special
18 duty services, the employer shall include in its billing or charge to the entity for whom the extra or
19 special duty is being provided the full amount of contributions required under RSA 100-A:16, II(b)
20 attributable to the extra or special duty. Notwithstanding any provision to the contrary, the
21 employer shall be responsible for the full amount of employer contributions required under RSA 100-
22 A:16, II(b) attributable to extra or special duty.

23 2 Effective Date. This act shall take effect July 1, 2013.

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HB 620-FN-LOCAL - FISCAL NOTE

AN ACT relative to the adjustment of member and employer contribution rates in the retirement system.

FISCAL IMPACT:

The New Hampshire Retirement System states this bill, **as introduced**, will increase state expenditures by \$2,270,000 million in FY 2014, \$2,340,000 in FY 2015, \$2,430,000 in FY 2016, and \$2,520,000 in FY 2017, and increase combined county and local expenditures by \$8,510,000 in FY 2014, \$8,820,000 in FY 2015, \$9,150,000 in FY 2016, and \$9,500,000 in FY 2017. There will be no impact on state, county, or local revenue.

METHODOLOGY:

The New Hampshire Retirement System (NHRS) states this bill requires contribution rates for members in the retirement system and employers to be calculated by assigning one half of the biennial change to the liabilities of the system to members and employers. Based on June 30, 2012 data, NHRS' actuary estimates increases shown in the table below to employer and member contributions using an assumed rate of interest of 7.75%, an assumed rate of wage inflation of 3.75%, and the Entry Age Actuarial Cost Method valuation method.

Expected Employer Dollar Increase Due to Proposal (In Millions)

Member Classification	FY 2014	FY 2015	FY 2016	FY 2017
Employees:				
State	\$1.75	\$1.81	\$1.88	\$1.95
Political Subdivisions	\$2.08	\$2.16	\$2.24	\$2.32
Teachers	\$4.02	\$4.17	\$4.32	\$4.49
Police:				
State	\$0.48	\$0.49	\$0.51	\$0.53
Political Subdivisions	\$1.36	\$1.41	\$1.46	\$1.52
Fire:				
State	\$0.04	\$0.04	\$0.04	\$0.04
Political Subdivisions	\$1.05	\$1.09	\$1.13	\$1.17
Total:				
State	\$2.27	\$2.34	\$2.43	\$2.52
Political Subdivisions	\$8.51	\$8.82	\$9.15	\$9.50

Note: Totals may not add due to rounding

In the tables below, NHRS' actuary has calculated the impact this bill would have on contribution rates for both the state and its political subdivisions.

Increase in State Retirement Contribution Rates

Expected Rate Increase			
Member	0.33%	0.65%	0.90%
Employer	0.33%	0.65%	0.90%

Increase in Political Subdivision Retirement Contribution Rates

Expected Rate Increase				
Member	0.33%	0.36%	0.65%	0.90%
Employer	0.33%	0.36%	0.65%	0.90%

The actuary states the current employer contribution rates are certified for the biennium and are set through June 30, 2015. However, this bill calls for changes in employer and member contributions beginning July 1, 2013 to be reflected with each valuation. For purposes of this supplemental valuation, the actuary has recognized the impact of the June 30, 2012 valuation in the member and contribution rates beginning July 1, 2013. Therefore, not only has the actuary assumed the proposed legislation would affect the allocation of the NHRS' total contribution rate between the members and the employers, but also that the total contribution rate would change due to accelerating the recognition of June 30, 2012 valuation results. The difference in rates is assumed to be constant in each future year. Actual experience with each subsequent valuation will be reflected in the rates as it occurs.