Senate Finance Committee

Deb Martone 271-4980

HB 555-FN-A, appropriating state general fund surplus toward the retirement system unfunded accrued liability.

Hearing Date: April 4, 2023

Time Opened: 1:04 p.m. **Time Closed**: 1:20 p.m.

Members of the Committee Present: Senators Gray, Innis, Bradley, Birdsell, Pearl, D'Allesandro and Rosenwald

Bill Analysis: This bill requires the transfer of 75 percent of a state biennial surplus to the reduction in the retirement system's unfunded accrued liability.

Sponsors:

Rep. T. Lekas	Rep. Goley	Rep. S. Pearson
Rep. C. McGuire	Rep. Leishman	Rep. D. McGuire
Rep. Wheeler		

Who supports the bill: Kate Horgan; Katherine Heck; Forrest Beaudoin-Friede; Cindy Kudlik;

Who opposes the bill: Julie Smith

Who is neutral on the bill: Marty Karlon

Senator Innis introduced the bill on behalf of the prime sponsor.

Summary of testimony presented in support:

<u>Katherine Heck, New Hampshire Municipal Association</u>:

- NHMA supports the concept of any type of additional payment toward the unfunded liability. There could be concerns, however, in the way in which the bill is constructed. Any legislature would be able to spend down any surplus, leaving nothing available to pay down the liability.
- HB 50-FN-LOCAL has been incorporated into HB 2-FN-A-LOCAL. It appropriates $50 million to the unfunded liability in a one-time payment, which would translate into $105 million in savings over 20 years.
- Our current employer rates make up 75-82 percent of the cost we currently pay. Our rates are reduced as we spend down that debt.
- Other states are putting down large payments on their unfunded liability as well.
- We do have a great payment plan in place to 2039.

- HB 555-FN-A would work to reduce property taxation and benefit taxpayers. Maybe not in the short term, but certainly in the long term.
- Senator Rosenwald asked Ms. Heck if she were familiar with the Governor's Commission on Alcohol and Other Drugs. That fund was implemented for one year and then suspended every budget for twenty years. She wondered what this bill truly guarantees. Ms. Heck reiterated NHMA supports any additional payment toward the unfunded liability, whether it be through a policy proposal (that can't bind any future legislature) or any type of one-time payment. That type of concept would provide relief.

Neutral Information Presented:

Marty Karlon, New Hampshire Retirement System:

- The Retirement System takes no position on HB 555-FN-A. However, they will not say no to any additional General Funds. Generally, when there is a certified surplus some amount of that surplus would go towards paying off some of the system's unfunded liability. They can accept those funds and apply them as they come in, thus there are no technical issues with the bill. The bill may be a bit aspirational because the surplus could be used for something else before the end of the biennium.
- Senator Birdsell inquired about the set amount usually given to the Retirement System at the end of the biennium. HB 555-FN-A is proposing 75 percent of the surplus be paid to the Retirement System. Mr. Karlon indicated there is no set amount. The unfunded liability is built into the employer contribution based on the payroll of each employer. Typically, the unfunded accounts for more than 75 percent of the rates that folks are currently paying. It is a significant amount. Last fiscal year retirement contributions of employers was in the vicinity of $600 million.
- Senator Rosenwald wondered where the proposed 75 percent came from. Mr. Karlon was unsure.
- Senator Pearl asked how the proposal would affect the current plan to pay off the unfunded liability. Mr. Karlon informed committee members of a proposal currently in HB 2-FN-A-L that would appropriate $50 million in this biennium toward the unfunded liability. Such an appropriation would lower employer contribution rates across the board between 0.09 to 0.21 percent of pay in FY 2026. It would reduce the state's employer contribution by $830,000, and the municipalities and school districts by $3.5 million. That is not a one-time savings. Basically, you're paying extra on your mortgage; you're not paying interest on that amount. Any appropriation would be recognized over a 20-year period. It would lower the employer rates by that percentage going forward over the 20 years. You would be saving long-term. A $50 million appropriation would approximate to $103-$104 million. Senator Pearl wondered if this would shorten the overall term of 2039. Mr. Karlon stated the effect would be to lessen the payments each year. It wouldn't move the needle on 2039. Any amount that comes in would be directly applied to reduce the employer contribution rate by some amount. Senator Pearl asked if this would result in a minor tax relief to

communities. Mr. Karlon indicated in the first year it would be over $4.3 million combined. That savings is expected to grow as payroll grows because the rates are set on a percentage of covered payroll. It would be a bit more in 2027, and then again a bit more in 2028. It's not an immediate money in one year; you don't receive all this money upfront. It's more of a long-term savings.

- Senator D'Allesandro asked about the current plan in place to pay off the unfunded liability. He sought confirmation that we're on a path to eliminate the unfunded liability in 2039. Mr. Karlon stated the bulk of the liability, $5 billion out of the $5.7 billion, is scheduled to be paid by employer contributions through FY 2039. Anything that has incurred since 2017 is paid off in 20-year biennial layers. It was a good strategy by the Legislature and the Decennial Commission to prevent liabilities from ever growing again to where they are now. You're paying off over shorter periods, and not letting the liability build. This bill will reduce the amounts paid every year going forward, but there currently is a plan in place.
- Senator Birdsell reminded Mr. Karlon that in the past the surplus has paid for one-time projects. If this bill passes and we are committed to paying the 75 percent, the remainder of the surplus probably won't be much to tackle any of those one-time expenses. Mr. Karlon explained the interpretation of the Retirement System is that the surplus occurs after the books are closed. If a future legislature wanted to take the surplus and do something else with it before July 1, the surplus would be gone. HB 555-FN-A is a position that may incentivize future legislatures to dedicate some of the surplus to the Retirement System.
- Senator Rosenwald suggested if a legislator wanted to pay down the liability quicker than 2039, wouldn't they set the budget for the next two years so that there is a larger surplus at the end. On the other hand, if a legislator thought the path to 2039 was reasonable, would they not create a smaller surplus? Mr. Karlon indicated it was a fair question, but that he was not the individual to respond to such a question.

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Date Hearing Report completed: April 6, 2023