



Senator Bradley recently sent out an email to his supporters regarding Senate Bill 3 and the proposed changes to the New Hampshire Retirement System. While Senator Bradley does a worthy job at praising himself for good pension reform legislation, his email is incredibly one sided and full of half truths. The NH Retirement Security Coalition felt this email needed a factual response. Below are 8 Facts about the *real* SB3.

QUESTIONS AND ANSWERS ABOUT RETIREMENT REFORM LEGISLATION SB-3
By Jeb Bradley April 15, 2011

Over the last few weeks, many people, especially public employees, have called, emailed or spoken with me at the State House about the pension reform bill, SB-3, which recently passed the Senate. Many of these people have received misinformation about what the bill actually does and how it affects them. Reforming the pension system to ensure its long term viability has been an emotional discussion for some folks, and **that's why I believe it is so important for everybody to have accurate information on the exact changes that are called for in SB-3.** It is my hope that this column will help provide clarification. As always, I remain open and available to discuss concerns or share thoughts on this issue.

Background

As of June 30, 2010 the unfunded liability of the New Hampshire Retirement System (NHRS) was \$4.7 billion – approximately \$3500 per person in NH. On July 1, employers -- meaning taxpayers -- will pay 13.95% of salary for teacher's retirement, 25.57% for police officers, and 30.9% for firefighters. In two years those rates will escalate to 29.2% for police and 33.9% for firefighters – rates that are unsustainable in my view. **Without SB-3, the entire unfunded burden will be borne exclusively by taxpayers. This will price employees out of jobs, drive up property taxes, make growing and attracting businesses to NH more difficult, and may lead to a downgrading of the state's bond rating.**

FACT #1

Senate Bill 3 does nothing to pay down the 3.7 billion pension unfunded actuarial accrued liability (UAAL) and 1 billion medical subsidy liability for three major reasons:

- SB3 seemingly lowers the UAAL because it lowers members' benefits and therefore the overall costs to the system. It absolutely does not pay down the UAAL directly; it is a smoke and mirror budget trick at best.
- The UAAL will continue to exist and continue to grow until the employers understand it is their responsibility to pay it back and that lowering benefits does not eliminate this responsibility.
- Even if there were no more employee benefits there would still be a UAAL, it must be addressed directly.

To say that SB3 lowers to UAAL is misleading. Senator Bradley is not helping taxpayers. He is hurting the men and women and their families who dedicate their time and sometimes their life to protecting, educating and maintaining safe and productive communities.

FACT #2

If Senator Bradley really wants to protect NH taxpayers, he should understand that his bill is going to cost taxpayers in the long run through downshifting costs to the communities because retirees will now need county services and Medicaid, taking money out of the cash registers of small businesses because retirees will no longer have the disposable income to spend at their businesses and lastly causing a race to the door by our most experienced teachers, police officers and fire fighters.

Impact of SB-3 on retired public employees -- There will be no changes in the pensions of people already retired.

FACT #3

SB3 closes the special account, which when funded correctly, provides Cost of Living Adjustments (COLAs) for retirees. His bill also eliminates the expected 4% escalator for the medical subsidy that was promised to retirees if they would accept a 4 year freeze. SB3 most certainly does affect current retirees who count on these provisions in order to continue to be able to live a moderate life of retirement.

Medical subsidy eligibility -- The medical subsidy is a payment to a retired teacher or municipal employee that allows them to stay on their former employer's health plan. Legislation several years ago froze the 8% growth rate in the medical subsidy. SB-3 continues that freeze, but if a retired employee is eligible for the subsidy payment he or she will continue to receive it without a growth factor. The medical subsidy is now funded by employers.

Impact of SB-3 on COLA's – SB-3 does not change COLA status. Legislation several years ago established a 1.5% COLA in 2010 on the first \$30,000 of pensions. SB-3 does not alter that but it also does not authorize additional COLAs.

FACT #4

SB3 most definitely changes COLA status, because it eliminates the ability to fund and provide COLAs by eliminating the special account. To say SB3 “does not alter, but it also does not authorize additional COLAS” is a misleading play on words.

Gainsharing—“gainsharing” is the practice of diverting revenue from the main pension fund into the Special Account to pay for COLAs and the Medical Subsidy. Gainsharing is one of the primary reasons the NHRS has an unfunded liability of \$4.7 billion. Pension systems rely on good earning years to balance poor earnings. Gainsharing diverted \$900 million from good earning years leaving the NHRS with no cushion for poor years. No pension system is viable when diversions occur. Legislation enacted several years ago eliminated gainsharing for the foreseeable future and SB-3 ensures gainsharing does not return. COLAs in the future will have to be funded from a different source.

FACT #5

Several Attorneys testified at the public hearing for this bill, warning the Senate and Senator Bradley that several changes in the bill do not pass constitutional muster and that the Senate should seek legal advice before proceeding. Listing several NH court cases including an opinion from Assistant Attorney General Richard Head, these Attorneys explained that retirement benefits become contractual after the member reaches permanent employee status.

Impact of SB-3 on employees who have worked for 10 or more years and are vested into the NHRS -- Contribution rates will increase from 5 to 7% for employees and teachers; public safety employees will increase from 9.3% to 11.3%. Overtime, unused sick and vacation time, end of career payments will still count toward retirement calculations, and current multipliers will be used. Special detail pay will still be included in retirement calculations provided it is not higher than the average of the previous 7 years. Also, effective in July of 2016, no one will be able to retire at a level higher than 100% of their base pay.

FACT #6

Contractual protection of benefits was just held up in the NH Supreme Court (April 2011), where Judge Delanis' opinion clearly reinforces that retirement benefits are contractually protected after the member reaches permanent employee status. This was the same court case Senator Bradley was confident would come down in favor of his changes during a February press conference.

FACT #7

The NHRS actuaries, who are impartial counsel, confirmed that there are contractual based issues with this bill in the fiscal note for SB3 where they state that because SB3 makes changes to current members, they advised the senate to seek legal advice. They also address this issue in a letter to the board of trustees that says there are many potential issues with the bill.

Impact of SB-3 on employees who have worked less than 10 years and are not vested -- Contribution rates will also increase similarly. Employees will not be able to count unused sick or vacation time or end of career payments toward retirement -- though overtime will count. Retirement will be calculated over 5 rather than 3 years. Public safety employees will have to work somewhat longer depending upon years of service. Currently these employees can retire at age 45 with 20 years of service. Under SB-3 an employee with 8 or 9 years of service can retire at 46 with 21 total years. For someone with 6 or 7 years they will be able to retire at 47 with 22 years. Someone with 4 or 5 years of service could retire at 48 with 23 years. Someone with 1-3 years could retire at 49 with 24 years. For newly hired public safety employees, they will be able to retire at age 50 with 25 years of service with a pension multiplier designed to achieve 50% of base salary after 25 years.

FACT #8

It is clear that SB3 contains several unconstitutional changes, so why would Senator Bradley continue to push for legislation that in fact will never become law? Further, if there is some sort of legal action taken that would keep SB 3 from going into effect it will cause a 100 million dollar hole in the state budget, the budget would be unbalanced and a special session would be in order. The facts are the facts and cannot be hidden or mislead in legislative discourse. Senator Bradley, please be honest with the citizens of NH about what SB3 *really* does.

The New Hampshire Retirement Security Coalition is made up of the following organizations:

American Federation of State County and Municipal Employees Council 93

American Federation of Teachers – New Hampshire

NE Police Benevolent Association

NEA - New Hampshire

New Hampshire AFL-CIO

New Hampshire Association of Fire Chiefs

New Hampshire Police Association

New Hampshire Retired Educators Association

New Hampshire State Permanent Fire Fighters Retirement Association

New Hampshire Troopers Association

Professional Fire Fighters of New Hampshire

NH School Administrators Association

State Employees Association of New Hampshire – SEIU Local 1984

Teamsters Union Local 633