

Framing the Issue re: HB641

The System's actuary performed an earlier analysis concluding that, on balance, the loading factors included in current employer contribution rates adequately reflect the impact of any end of service increases in earnings. That is to say, for the population as a whole the NHRS is billing an amount adequate to pay benefits even if with dramatic end of career increases.

This proposal and its predecessor under HB1645 of 2008, which would more specifically assign the cost of end of service "spikes", is based on the assumption that late in career "spikes" vary significantly between employers. If this is in fact the case then costs could arguably be more fairly charged to a specific employer.

The System's actuary has expanded the original analysis described above to model estimated individual loading factors for each employer group. Their report is attached to this as Appendix A. A few comments to help interpret the data are in order:

- The analysis uses data from retirees over the last five years. This results in some small numbers vis a vis the total group.
- The column headed "Raw Load Results Using Final 3 Years Prior to Retirement" calculates a pro forma load factor for each employer group.
- An entry calculating a percentage indicates there is some sort of end of career increase in compensation for employees in that group. The actuary further notes that no entry does not necessarily mean that spiking is not allowed, only that the employee(s) who retired in the last five years did not spike. As you can see there are few empty boxes, indicating that the practice is fairly widespread.

Dramatic end of career adjustments in pay and pension benefits do occur. Media headlines document that fact. However, based on this data it seems as though they are clearly the exception rather than the rule.

- The outliers that make the headlines must to be relatively few and far between when compared with the member group as a whole when the average pension is under \$18,000.
- While the outliers may have no impact on the financial soundness of the Trust as a whole, they have an inordinate impact on stakeholder perceptions of fairness and soundness of the Trust.
- A corollary issue is whether the cost to administer any plan that would more precisely identify the specific costs to particular employers would not be greater than the benefit derived from assigning these costs to individual employers.

Alternative proposals

Should the committee decide that legislative relief is still in order, a number of proposals have been floated over the past year that might be considered:

1. An employer specific actuarial calculation – this is the essence of the current version of the legislation. This alternative is:
 - a. Most accurate
 - b. Costly administer
2. Mitigate the impact of end of career increases limiting the earnable compensation upon which pension benefits are calculated. A sample proposal prepared earlier in January is attached as Appendix B.
 - a. Most common method used in other public funds surveyed.
 - b. Could be combined with a defined contribution plan available for elements of compensation that are not “pensionable”.
 - c. This would likely be a prospective change, so it would create new groups for benefits calculations, with attendant administrative costs.
3. Assess a simple annual surcharge or special assessment against benefits deemed above the norm over the life of the benefits as they are paid
 - a. Simple to administer and easy to understand
 - b. Avoids a large up front assessment for employers
 - c. Politically attractive since communities who do not feel that they spike would see a direct cost assessed against those that do
 - d. Not necessarily an actuarially based assessment, merely a “penalty” assessment