



To: Cities and Towns, School Districts, SAUs, County Governments

From:

John B. Andrews, Executive Director, NHMA/NHLGC

Dr. Theodore E. Comstock, Executive Director, NHSBA

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Date: January 17, 2008

Re: Potential Mandate (Article 28-a) Litigation

As most of you know, the Commission to Study the Long-Term Viability of the NH Retirement System has been meeting since August to continue to address the issues that led to the destabilization of the New Hampshire Retirement System (NHRS) and a funding level of 57%.

During the 2007 legislative session, HB 653 was passed; it provides for, (1) a new funding methodology which will increase employer normal contribution rates, (2) a temporary moratorium on funds going into the Special Account with the purpose of shoring up the core pension fund (the "corpus"), and (3) an appointment of a local government management representative to the NHRS Board of Trustees. All of the research and expert information provided by NHRS consultants led to a determination that public employers (taxpayers) will have to pay \$2.7 billion in unfunded accrued actuarial liability (UAAL) over 30 years to shore up the system, a cost that will be added on to the normal contribution rates for employers.

In addition to these costs, the NHRS Board was provided with a legal opinion that the medical subsidy could only be funded through *employer* contributions. Although employer contributions had been used in the past, the practice had always been to replace the amount paid to the corpus of the pension fund by employers with money from the "special medical account." Each time the legislature adopted a medical subsidy provision for a specific employee group, it was stated in the legislative record that all the money for the medical subsidy was to come from the Special Account and *not from employers*, which would have resulted in an increase in employer contribution rates. However, once the NHRS Board of Trustees received the legal advice that the employer contributions could no longer be reimbursed in the same way as they had in the past, the decision was made to simply take the money from employer contributions, without reimbursing the pension fund corpus. For the current biennium, that adds \$128 million to the unfunded liability of the system, to be paid by employers (taxpayers). That means employer contributions