A User’s Guide for

YOUR

RETIREMENT

SYSTEM

Produced by the New Hampshire Retired State Troopers Association
Acknowledgements

Sponsoring Organizations

NH Retired State Troopers Association
NH School Administrators Association
American Federation of Teachers, NH
Retired State Employees Association, Chapter 1
NH Police Association
Professional Firefighters of NH
NH Association of Retired Law Enforcement Officers
NH State Troopers Association
NH Association of Chiefs of Police
NH Retired Educators Association
NH State Permanent Firefighters Association
AFSCME Council 93
SEA-SEIU Local 1984
National Education Association – NH

Prepared by
Kate McGovern Associates, LLC
Retirement Workshops & Benefit Review
www.katemcgovernassociates.com

Layout by
Heather Quinn Claver
www.clavercomputer.com

Produced by
NH Retired State Troopers Association

This book may be purchased for $1.50
N.H. Retired State Troopers Association
Post Office Box 848, Concord, NH 03302-0848
Tel. 603-736-9412 • Email: www.nhrsta.org
Your Retirement System

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Foreword

The level of interest by retirees in the NH Retirement System and the applicable laws governing it has increased in recent years, because of diminished COLAs and concerns for the funding of the health care subsidy. Something beyond the information available at the Retirement System was needed, as misinformation was rampant and sparse knowledge of the pension system and benefits had been casually tossed around by retirees for years. If you were to ask the same question to any number of the 20000+ retirees you would most likely not get the same response from any number of them as changes to the law occur at every session of the legislature. The only resource was their self-interpretation of the law itself or the information available at the Retirement System. A growing need became apparent to expose and eliminate the errors, fallacies, distortions and misunderstanding that were the outgrowth common to the discussions between retirees; as well as public official employers, administrators and members of the Legislature. The answer in retrospect was obvious, an easy-to-read reference or User’s Guide containing documented facts compiled by systematic fact-checking and diligent scholarly research and along with supporting examples that would be easily understood. The User’s Guide would describe in simple terms examples of how the Retirement System works; its provisions and its limitations that distinguish one Group from another; and spelling out individual benefits. The product, as the saying goes would have all interested parties: retirees (current and future), state, county and local administrators, and Legislators “singing on the same page.” It would serve as a sourcebook of knowledge in easily understood language designed to raise the awareness and increase the knowledge of all those with Retirement System interest—significantly current retirees.

The creation and development of this informative User’s Guide was conceived by retired State Police Detective Sergeant Roland Lamy. Lamy, then Chairman of the NH Retired Troopers Association, consulted with several fellow retirees as well as with various members of the N.H. Retirement Coalition with knowledge and prior experience with the NH Retirement Laws and System. Everyone consulted was unanimous in their desire to see a single publication that explained the NH Retirement System.

The easiest task was identifying and selecting a person skilled in writing and research and with knowledge of the system. Kate McGovern, who had served in the Retirement System administration, possessed an abundance of knowledge and possessed the skills required and was stand alone natural for the task. The User’s Guide is testimony to her knowledge, diligent research and talented writing skills. The Retirement Coalition organizations listed in the User's Guide backed the development of the publication and provided the funding for the printing.

Kevin O'Brien, Chairman
NH Retired State Troopers Association
Introduction

This User’s Guide will help you understand the workings of the New Hampshire Retirement System (NHRS) and your benefits. The NHRS manages a defined benefit plan to provide secure lifetime pensions for public employees. More than 51,000 of New Hampshire’s public sector workers are contributing to NHRS. The four classifications, Employees, Teachers, Police Officers and Firefighters include employees of the State, counties, municipalities, school districts and other political subdivisions. There are more than 19,000 retirees and beneficiaries collecting pensions. The first section of this booklet describes how NHRS invests retirement funds and administers the benefits. The next three sections of the booklet are designed to help public employees and retirees understand the benefits.

About this Booklet

The booklet is not a publication of the NH Retirement System. It was prepared independently, and it is intended to provide a general description of the System for public employees, retirees and legislators. Due to the level of complexity in the statute and rules, individuals are encouraged to contact NHRS directly to confirm the applicability of any of the material to their own circumstances, and to consult financial planning professionals, as appropriate.

The Retirement system is governed by RSA 100-A, Administrative Rules and a 13-member Board of Trustees. Each year, new legislation is proposed that may impact the benefits or operations of the system. The Board may make policy changes at their monthly meetings. Changes may be made in the Administrative Rules, through the state rule making process. This publication is based on the laws, rules, regulations and policies in effect as of July 1, 2006. As is the case with any publication based on these sources, if there is any conflict between the information summarized here and the governing statute, rules and policies, the statute, rules and policies prevail.
PART I

HOW THE NEW HAMPSHIRE RETIREMENT SYSTEM WORKS
Where Pensions Come From

NHRS manages a *Contributory Defined Benefit Plan*, collecting contributions from employees and employers. The contributions are invested to generate sufficient funds to pay lifetime pensions to eligible members and beneficiaries. With two-thirds of the cost of the pensions coming from the investment income, it’s a cost-effective way of providing an exceptional employee benefit.

In FY 2005, the NHRS fund increased by
- $145.7 million in employee contributions,
- $133.1 million in employer contributions
- $413.7 in investment gain.

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**THREE SOURCES OF INCOME:**  
**MEMBER CONTRIBUTIONS, EMPLOYER CONTRIBUTIONS, INVESTMENT GAINS**

**I. Member Contributions**

**Group I:** Employees and Teachers contribute 5% of gross pay. The member contributions along with the contributions from employers are invested in the trust fund. The investment gains made over 30 year careers enables Group I members to retire on half of their working pay at age 60.

*The scenarios for Group I members to retire earlier or later than age 60 are discussed in Part III.*

**Group II:** Police Officers and Firefighters contribute 9.3% of gross pay. The member contributions along with the contributions from employers are invested in the trust fund. The investment gains made over 20 year careers enable Group II members to retire on half of their working pay at a minimum age of 45.

*More details about Group II retirements are discussed in Part III.*

**II. Employer contributions**

Employer contributions are set by the NHRS Board of Trustees. The rates are adjusted up or down, according to the pension fund needs. When the trust fund earnings exceed the amounts needed for the pensions, the rates are decreased. When the trust fund does not gain enough to cover the pension obligations, the Board increases the employer contribution rates.

The cost to the municipalities, counties and school districts for police officers, teachers and firefighters is shared by the State, with 65% paid by the locality and 35% by the State. The total cost of contributions on behalf of employees is the responsibility of the municipality, county or school district.
III. Investment Income

The Board of Trustees uses an investment allocation strategy that seeks maximum gain, with reasonable risk. The portfolio balances aggressive, innovative and fixed income investments.

The majority of investments are in domestic equities, with the remainder of the trust fund in domestic fixed income, global equities and fixed income, commercial real estate and alternate investments. As of 6/30/05, the fund assets totaled $4.7 billion.

How does NHRS assure there is enough money to pay me for my lifetime?

There is a process that involves several moving parts; the System must:

- Monitor current income in contributions and investments
- Monitor current expenses for benefits and administration
- Forecast future income – how will the investments do?
- Forecast future benefit obligations – how many people will retire each year, how long are they likely to live, and how much will be needed to pay them?

If any of these factors change, action needs to be taken to make sure the pension obligations can be met. The Funding Equation $C + I = B + E$: Contributions plus Investments = Benefits + Expenses, needs to remain balanced.

How can they forecast future income and obligations?

NHRS hires an actuary, a specialized consultant, to evaluate all the known factors. The actuary’s report is presented to the NHRS Board of Trustees, so the Board can make informed decisions to assure the pension obligations are met.

Each of the factors impacts the others. For example, as the baby boomers retire, the trust fund needs more cash on hand to pay monthly benefits. The need for greater liquidity impacts the investment expectations. Some of the portfolio will be shifted to shorter term or fixed income investments, which generally have a lower return than equities.

One of the key decisions is setting a realistic expectation for annual investment gains. The NHRS Trustees is changing the assumed rate of return from 9% to 8.5%, effective July 1, 2007, to reflect current capital market expectations.
What happened to the fund in the recent stock market downturn?

Fund asset gains met or exceeded the assumed 9% return during 15 of the last 20 years. However, three of the five low years were consecutive and occurred in this decade.

With 50% of the investments in domestic equities, it was clear why the NHRS trust fund declined in 2001-2003, when the stock market declined by nearly 40%. The period from January 15, 2000 to October 9, 2002 ranked as the 10th worst crash of the Dow Jones Industrial Average (DJIA) since 1900, according to an article by Woodard Dustin on mutualfunds.com. Although the 37.8% value lost was not as great as the 86% that was lost in the worst crash; its 999 day duration was the longest of all top ten crashes.

During the market downturn, the S&P 500 index lost 15-18% per year, while NHRS funds declined 6.4% and 6.7%. The NHRS fund has now regained the $4.7 billion in assets that were held in trust as of 6/30/00 – but the fact that it didn’t make 9% for 3 consecutive years creates the need for corrective measures.
What happens when the investments fall short?

The employer contribution rate is increased to make up the difference when the investments do not gain as expected. When earnings exceed the assumptions, the employer rate is reduced.

Since investment earnings are such a significant portion of the trust fund income, the impact of the recent low earnings must be made up with an increase in the employer contribution rate. In addition to making up for the down turn in the markets, the more cautious assumption of 8.5% gains will also result in a greater cost share for the State, counties, municipalities and school districts.

The employer contribution rates will increase as indicated below, on July 1, 2007:

<table>
<thead>
<tr>
<th>Category</th>
<th>Rates 7/1/05-6/30/07</th>
<th>Rates Effective 7/1/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>6.81%</td>
<td>8.74%</td>
</tr>
<tr>
<td>Teachers</td>
<td>5.7%</td>
<td>8.93%</td>
</tr>
<tr>
<td>District share</td>
<td>3.7%</td>
<td>5.8%</td>
</tr>
<tr>
<td>State share</td>
<td>2.0%</td>
<td>3.13%</td>
</tr>
<tr>
<td>Firefighters</td>
<td>22.09%</td>
<td>24.49%</td>
</tr>
<tr>
<td>Local share</td>
<td>14.36%</td>
<td>15.92%</td>
</tr>
<tr>
<td>State share</td>
<td>7.73%</td>
<td>8.57%</td>
</tr>
<tr>
<td>Police officers</td>
<td>14.9%</td>
<td>18.21%</td>
</tr>
<tr>
<td>Local share</td>
<td>9.68%</td>
<td>11.84%</td>
</tr>
<tr>
<td>State share</td>
<td>5.22%</td>
<td>6.37%</td>
</tr>
</tbody>
</table>

What’s ahead?

While the trust fund regularly exceeded its expected 9% rate of return, in previous years, it will take a long time to make up for the losses of 2001-02 and low earnings in 2003.
Due to the impact of the three low earning years and the increasing pace of retirements, the trust fund was only about 60% funded, as of 6/30/05. Consistently good investment returns will help to close the gap, along with the projected increases in the employer rates.

**What does the funded ratio mean?**

The funded ratio is essentially a snapshot of the assets on hand, compared to all of the projected liabilities, if everyone retired today. According to the National Association of Retirement System Administrators (NASRA), “substantially all under-funded plans are able to meet their current obligations.” Since not everyone will retire all at once, the fund has time to make up the difference.

Conversely, “fully funded” doesn’t mean that it’s set forever – it just means there are enough assets on hand to meet the currently accrued liabilities. An income stream of member and employer contributions and investment earnings must be maintained to cover future pension benefits. NASRA compares the funded ratio to a mortgage, where there is an obligation to pay over time. Periodic valuations and financial reports provide the information to make adjustments to assure that all pension obligations are met.

**Who is responsible for assuring NHRS meets its obligations?**

NHRS is governed by a 13-member Board of Trustees. The Chair and Vice Chair are members of the public, selected by the Governor and confirmed by the Governor’s Council. The Senate and House each select a Trustee and the State Treasurer serves as an ex-officio member. The remaining eight are representatives of the plan participants: Teachers, Police Officers, Firefighters and Employees. The members’ unions and associations prepare a list of names for the Governor, and he/she selects a nominee for confirmation by G&C. (The list of Board members serving as of 7/1/06, is in Appendix A)

One of the most significant board responsibilities is the management of the trust fund. A professional investment consultant is hired to work with the trustees to select fund managers for assets in each of the investment categories. The trustees conduct periodic reviews of the performance of each fund manager.

Based on actuarial studies and fund performance, they set the assumed rate of return and the employer contribution rates. The decision to increase employer contribution rates is not an easy one, because it impacts state and local budgets. Even though earnings exceeded 9% in 2004 and

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*Note: The 60.27% funded status is based on the actuarial method of calculating fund liabilities. According to the fair value method, the fund is at 66.43%. Source: Comprehensive Annual Financial Report (CAFR) 6/30/05, p. 70
2005, the 8.5% assumption is more reasonable because more liquidity will be needed in the fund to pay pensions in the years ahead. As the baby boomers retire, the fund’s current cost of $20 million per month in pension payments will continue to increase.

As the baby boomers retire, the changing ratio of contributing members to retirees will continue to add to the costs.

- Number of retiring members from 2001 to 2011 will more than double
- Number of retiring members has increased nearly 30% per year

Chart: Number of retirements, actual and projected

What is Fiduciary Duty?

The Board of Trustees is bound by statute, constitution and common law to act solely in the interests of plan participants. Article 36-a of the New Hampshire State Constitution prescribes that “Retirement System funds are to be used only to benefit the System.” Based on actuarial studies and fund performance, they set the assumed rate of return and the employer contribution rates.

In addition to the trustees, the system’s executive director, fund managers and consultants are fiduciaries. The system’s ability to function autonomously from state government is key to fulfilling the fiduciary duty. Legislation in recent years has clarified the system’s autonomy. Additional information about fiduciary duty can be found in Appendix C.
The NHRS Administrative Staff

NHRS Executive Director Robert S. Leggett is responsible for managing the two core businesses: investing retirement funds and providing member services. He directs an administrative staff of 55-60 employees. Director Leggett served as Chief Investment Officer for the $13.5 billion in the Kentucky Retirement System and he holds an MPA and a J.D.

Over the past three years, NHRS has implemented a major technology conversion program, assuring the capacity to store and process member records. Since NHRS pensions are based on salary and length of service, accurate information is critical for calculating benefits. The new system increased the efficiency of NHRS obligations which include:

- Collection and processing of monthly data from 469 employers, regarding the earnings of more than 51,000 public employees
- Calculation of member pensions based on individual records of salary and service, for thousands of retirees and prospective retirees each year
- Disbursement $20 million in monthly pensions for 19,000+ retirees and beneficiaries

NHRS has a Strategic Plan to meet current challenges that will:

- Build a foundation to support measurable improvement in member and employer services.
- Develop and implement best practices, policies, procedures and standards in investment, financial reporting, administration, operations and plan governance. The staff will be working to streamline business practices, revise and improve workflow, strengthen internal controls, ensure resources match obligations, and track their progress and success. Upcoming initiatives include a periodic review of all professional services, including Request for Proposal (RFP) for investment consultants and actuaries.

Communication Initiatives: Contact Center, website development, email subscribing service, outreach sessions for members, retirees, employers, member unions & associations, and legislators.

Tip: Check out the NHRS website, www.nhrs.org to sign up for email bulletins and check out the schedule of upcoming workshops.

The New Hampshire Legislature

NHRS is governed by a state statute, RSA 100-A, which is more than 130 pages long. Developed and amended over a period of 30 years, its scope includes:

- Definition of eligibility for NHRS membership and benefits
- Member contribution rates
- Composition of the Board of Trustees
- Formulas for pension calculations
- Criteria for service credit purchases
- Additional benefits such as the medical subsidy
Each session, new legislation is proposed on a range of topics dealing with NHRS benefits and administration. Legislators review fiscal notes prepared by the NHRS actuary, indicating the cost of any prospective benefit. They may also seek input from the NHRS administrative staff to help them understand the impact of implementing new benefits or making changes to the eligibility criteria.

Legislative proposals may also come from the Board of Trustees in the Comprehensive Annual Financial Report (CAFR), and at other times, as appropriate. Citation: RSA 100-A:15 VII (d) Any suggested changes in legislation which the board may seek in order to better serve the members of the system.

The majority of retirement legislation is reviewed by the Executive Departments and Administration (ED&A) Committees in the House and in the Senate. Proposed retirement legislation may also be sent to the Senate Insurance Committee and the House and Senate Finance Committees. If a bill amending RSA 100-A is passed by both the House and the Senate, it goes to the Governor for signature. The Governor may sign or veto the legislation, or allow it to become law without signature.

The Fiscal Committee, which is made up of both House and Senate members, is responsible for setting the amount of the annual Cost of Living Adjustment (COLA).

RSA 100-A can be found on-line on the NHRS website, www.nhrs.org.

The Special Account

Where COLAs Come From

The Special Account is source of funding for Cost of Living Adjustments (COLAs.) Unlike the pensions, which are based on specific formulas, COLA amounts are related to investment earnings. When NHRS investments consistently gain over and above what is needed to fund the pensions, funds are set aside in the Special Account.

During the 1990's, NHRS investments substantially exceeded the expected 9% return. The Trigger Rate is set at \( \frac{1}{2} \% \) above the expected rate of return, so that actuarial gains in excess of 9.5% were set aside in the Special Account, on a five year rolling average.

"The Roaring 90's"

Due to the high earnings during the “Roaring 90's” millions of dollars went into the Special Account. The money allowed legislators to grant COLA’s and add other post-retirement benefits. Prior to the market downturn which began in early 2001, the Special Account reached $731 million.
The chart below shows a 10 year history of investment earnings. The solid horizontal line indicates the 9% assumed rate of return. The dotted line is the 9.5% Trigger Rate. The solid bars are the actual rate of return; the stripped bars are the actuarial rate.

How are benefits funded by the Special Account?

While considering extra benefits for retirees, the legislature evaluates the cost of terminal funding, which is the amount needed to fund the benefit for the expected lifetimes of eligible retirees. Legislators rely on actuarial calculations of the total cost. The actuaries consider the number of people who are eligible for the benefit and their ages. They may also need to forecast how many people will become eligible for the benefit in the future.

When a new benefit is approved, the total amount needed to fund it is deducted from the Special Account balance. For example, the $50 million appropriated for a 4% COLA in 1999 was the amount calculated to maintain a 4% increase in the pensions of all eligible retirees and beneficiaries, for their expected lifetimes.
The charts below show running balances in the Special Account since 1999, as benefits were established and extended and COLAs were granted.

- The last time new money from asset gains went into the Special Account was in FY 2000.
- The fund went from a high of $731.6 million to a balance of $251.4 in 2006.
- COLA’s have been below the Consumer Price Index (CPI) in recent years, partly due to a policy to maintain a reserve in the fund.
- Medical subsidy benefits have not been extended to provide eligibility for Group II members hired after 6/30/00 or for Group I members who retire after 7/1/08. (The level of funding in subsidy accounts for retirees who meet those eligibility criteria is a separate issue, and will be discussed in the Medical Subsidy section.)
- The dollars are in millions; amounts are rounded

<table>
<thead>
<tr>
<th>Effective</th>
<th>Employes</th>
<th>Teachers</th>
<th>Police</th>
<th>Fire</th>
<th>Total</th>
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<td>93.5</td>
<td>63.5</td>
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<td>7/1/99</td>
<td>COLA: 4% for all groups</td>
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<td>18.0</td>
<td>9.4</td>
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<td>7/1/99</td>
<td>Extension GII Medical Subsidy for Police hired by 6/30/95</td>
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<td>7/1/99</td>
<td>Start of Medical Subsidy for Teachers who retire by 7/1/04</td>
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<td>Interest credited</td>
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<td>11.5</td>
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<td>Asset Gain</td>
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<td>1/1/01</td>
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<td>(53.2)</td>
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<td>7/1/01</td>
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<td>23.1</td>
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<td></td>
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<td>3.6</td>
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<td>$8500 minimum pension for GI retirees with 20+ years of service</td>
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<td>(12.7)</td>
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<td>1/1/02</td>
<td>Extension of GI Medical Subsidy for state employees retiring by 7/1/04</td>
<td>83.3</td>
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<td>(83.3)</td>
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<td>7/1/01</td>
<td>Extension of GI Medical Subsidy for Employees and Teachers retiring by 7/1/08</td>
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<td>(42.0)</td>
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<td>3/1/02</td>
<td>Special COLA for firefighters retired on or before 7/1/94</td>
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<td>19.7</td>
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<td>5.4</td>
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<td>.5</td>
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<td>COLA: 2% for Employees &amp; Police; 3% for Teachers &amp; Firefighters</td>
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<td>17.5</td>
<td>7.1</td>
<td>5.6</td>
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<td>.5</td>
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<tr>
<td>7/1/03</td>
<td>COLA: 2% for Employees, Teachers &amp; Police; 3.5% for Firefighters</td>
<td>12.3</td>
<td>13.2</td>
<td>7.8</td>
<td>7.4</td>
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<tr>
<td>Balance after benefits purchase</td>
<td>99.4</td>
<td>124.2</td>
<td>48.3</td>
<td>47.7</td>
<td>319.6</td>
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</table>
Effective 7/1/03, legislation required state and sub-division employees, police and fire be accounted for separately:

<table>
<thead>
<tr>
<th></th>
<th>Emp State</th>
<th>Emp Sub</th>
<th>Teach Pol State</th>
<th>Pol Sub</th>
<th>Fire State</th>
<th>Fire Sub</th>
<th>Total</th>
</tr>
</thead>
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<td>Balances after benefit purchase</td>
<td>59.8</td>
<td>39.6</td>
<td>124.2</td>
<td>15.1</td>
<td>33.2</td>
<td>1.4</td>
<td>46.3</td>
</tr>
<tr>
<td>Interest credited</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance 6/30/04</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7/1/04
- COLA: 1% for EE, Teachers & Police; 2.5% for FF
  - (4.5)    - (2.3)    - (7.4)    - (1.6)    - (2.9)    - (2)    - (5.9)    - (24.8)  
- Extension of GII Acc. Dis. subsidy for hires by 7/1/05
  - (0.4)    - (0.8)    - ***    - (0.5)    - (1.7)    
- Balance after benefits purchase
  - 56.4    - 38.1    - 119.1    - 13.4    - 30.1    - 1.2    - 40.8    - 299.1  
| Interest credited         |           |         |                 |         |            |          |       | 3.8   |
| Balance 6/30/05           |           |         |                 |         |            |          |       | 302.8 |

7/1/05
- COLA
  - (26.3)  
| Interest credited         |           |         |                 |         |            |          |       |       |
| Balance 6/30/06           |           |         |                 |         |            |          |       | 278.3 |

7/1/06
- 1% COLA
  - 5.6    - 3.0    - 9.9    - 1.9    - 3.5    - 0.1    - 2.9    - (26.9)  
| Balance after COLA        | 47.7      | 33.2    | 101.6           | 9.9     | 23.7       | 1.0      | 34.3  | 251.4 |
| Targeted Reserve          |           |         |                 |         |            |          |       |       |
| Targeted: 3 years @ 5%    | 102.3     | 54.3    | 181.0           | 34.6    | 64.4       | 1.8      | 52.1  | 490.5 |
| Balance after reserve     | (54.6)    | (21.1)  | (79.4)          | (24.7)  | (40.7)     | (0.8)    | (17.8) | (239.1) |

What is the relationship between the Special Account and the COLA levels?

The Special Account is primarily intended to provide COLAs to retirees. Recently, legislators have not granted COLAs for retirees that keep pace with the Consumer Price Index (CPI).

There is more than $250 million in the fund – why is the COLA only 1%?
One of the reasons that some legislators have been reluctant to grant a higher COLA is because the $250 million currently in the Special Account falls below a targeted reserve. The goal is to retain a reserve in the Special Account equivalent to 3 years of 5% COLAs. The targeted reserve is known as the Gentlemen’s Agreement. The agreement began as an informal understanding between legislators and representatives of member groups to try to maintain a reserve for future COLAs prior to funding any new benefits.

The Gentlemen’s Agreement became law in 2003
Below is the relevant statute, RSA 100-A:16 (II) (h)(7). The language, effective 7/1/03, clearly prioritized the use of the Special Account for COLAs. It does not prohibit the legislature from granting COLAs or any other benefits, even when the account falls below the targeted reserve level:

The special account shall be used only to fund or partially fund additional benefits as follows: first, to provide supplemental allowances, or COLAs, pursuant to RSA 100-A:41-a and, second, to the extent that funds may be available in the special
account in excess of a 3-year 5 percent COLA reserve, to provide additional benefits to retired members and beneficiaries of the retirement system with the specific approval of the appropriate policy committees and approval of the general court. *Nothing in this section shall preclude the appropriate legislative policy committees and the general court from adopting legislation that provides additional benefits in the event that the special account does not contain a 3-year, 5 percent COLA reserve.*

**FAQ:** Does the “Gentlemen’s Agreement”, now law, prevent COLAs if the Special Account is below the targeted reserve?

No. The law says COLAs are a priority use for the Special Account. Extra benefits should only be added if the account is above the reserve level. The law doesn’t prevent legislators from granting COLAs or funding other benefits. Legislators may grant COLAs even if the Special Account balance is below the targeted reserve.

**What is the relationship between the Special Account & the Medical Subsidy Programs?**

Right now, none. The Special Account was the source of funding that established Medical Subsidy programs, which help thousands of retirees afford to stay on their former employers’ group health plans. (The subsidy programs are described in Part II of this booklet). Funds were set aside in medical sub-trusts by legislative action. The on-going operation of the subsidy programs **does not draw from the Special Account**.

Medical subsidies were established for police officers and firefighters in 1988; for teachers in 1999; sub-division employees and state employees in 2001. Amounts were set aside to terminally fund the costs of each program when the subsidies were established and as they were extended.

The medical subsidy funds did not gain at the assumed 9% rate from 2001-2003, due to lower than expected investment earnings. Consequently, each of the subsidy programs is currently under-funded. A source of funding to replenish those accounts has not yet been identified – there is no requirement for use of the Special Account, employee contributions or employer contributions.

Without new legislative action, no additional funds can be moved from the Special Account to replenish the Medical Subsidy programs. Since the programs are now under-funded, the Special Account could potentially be the source of additional funding. The potential relationship between the Special Account and the additional funding for the Medical Subsidy programs has been another reason for legislative reluctance to provide COLAs.

**Terminal funding:** A one-time contribution needed to be invested today to pay for all future benefit payouts. The terminal funding is contingent on the actuarial assumptions used in the calculation.

*Source: Buck Consultants*
The Funding of the Medical Subsidy Programs

The post-retirement medical subsidy programs that provide a contribution toward health insurance premiums on behalf of eligible retirees are currently expected to run out. While the pensions are guaranteed through an increase in the employer rate, there is no such mechanism in place to guarantee the medical subsidy programs.

When the subsidies were initially established, they were terminally funded – intended to last for the lifetimes of eligible retirees, provided that the investment gain assumptions were realized. Since the presumed 9% per year investment gain was not achieved, the subsidy programs no longer have sufficient funds.

Why do different groups run out at different times?

The subsidies for Police Officers and Firefighters began in 1988, so those funds grew steadily during the 1990’s. The assumed rate of return of 9% was exceeded in the majority of years that the fund was in place, which created a cushion for the bad years. The impact of the recent down turn in the investment earnings has taken a toll, but the subsidy funds for Police Officers and Firefighters remained about two-thirds funded in 2004.

The initial appropriation for the Teachers’ subsidy was made in 1999, just as the stock market bubble was about to burst. The total $105.9 million appropriated for the teachers’ medical subsidy program would have been adequate, if it had gained at the assumed rate of 9% each year. The problem came with three consecutive bad earnings years, 2001-03, when the fund declined by 6.4 and 6.7%, and then only grew at 2.5%. The teachers’ subsidy fund fell further and further behind. To see how fast the bad years impacted the subsidy values:

- 2001, it should have grown by 9%, instead it lost 6.7%, which made it short by 15.7%.
- 2002, instead of growing 9%, it lost 6.4%, so it was off by 15.4%
- 2003, with a gain of only 2.5% instead of 9%, so it was short by 6.5%.

How about eliminating the 8% annual increase in the subsidy amount?

One of the proposals that would prolong the life of the current subsidies is to stop increasing the annual amount. Current law provides an increase in the subsidy payment by 8% each year. The amounts below, effective 7/1/06-6/30/07 are scheduled to increase by 8% on July 1, 2007:

<table>
<thead>
<tr>
<th>Monthly amount paid directly to former employer or former employer’s health plan administrator</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Single person, under age 65</td>
<td>$347.74</td>
</tr>
<tr>
<td>2 persons, under 65</td>
<td>$695.48</td>
</tr>
<tr>
<td>Single Medicare supplement plan</td>
<td>$219.30</td>
</tr>
<tr>
<td>2 persons, Medicare supplement</td>
<td>$438.60</td>
</tr>
</tbody>
</table>
With an increase of 8% per year, the subsidy amount still does not keep pace with the inflation of health care premiums. The 2006 subsidy of $8,345.76 for a 2 person (pre-65) plan falls short of the cost of most plans by about $1,500. Some believe that freezing the amount would be better than running out completely.

If the subsidy amount has been frozen at the 2005 level, and was no longer increased by 8% per year, the program could be maintained for Police Officers and Firefighters who meet current eligibility criteria. Group II members hired after 6/30/00 would not be eligible unless additional funding was found to extend the program. Exception: those hired by 7/1/05 would be subsidy eligible, if they qualified for a job-related Disability Retirement. However, the subsidies for Employees and Teachers would still run out by 2013.

The table below shows the 2004 level of funding in each of the subsidy programs, and the dates they are projected to run out of funds.

<table>
<thead>
<tr>
<th>% Funded</th>
<th>Projected to run out</th>
<th>If the 8% per year increase was repealed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>59%</td>
<td>2011</td>
</tr>
<tr>
<td>Teachers</td>
<td>43%</td>
<td>2011</td>
</tr>
<tr>
<td>Police</td>
<td>75%</td>
<td>2019</td>
</tr>
<tr>
<td>Fire</td>
<td>77%</td>
<td>2023</td>
</tr>
</tbody>
</table>

### Summary FAQ’s on Medical Subsidy Funding

**What is the relationship between the current Special Account balances and the funding levels of the Medical Subsidy programs?**

None. Funds for the existing subsidy programs were appropriated from the Special Account years ago. However, the Special Account could be a source of funds for the replenishment of the Subsidy programs. The option of using Special Account money to replenish the Subsidy programs is one of the reasons legislators have articulated for not granting more than a 1% COLA.

**What is the relationship between the subsidy programs and health insurance coverage for retired State employees?**

The subsidy payments made on behalf of eligible State retirees help the State pay for retiree health insurance. Many retirees are unaware of the subsidy program, because there is no difference in the level of benefit for those who are subsidy eligible and those who are not. Health insurance premiums for eligible retired State employees have been fully paid by the State since 1973.
PART II

PLANNING YOUR RETIREMENT
New Hampshire Retirement System (NHRS) pensions are the cornerstone of public employees’ retirement. NHRS pensions are a **Defined Benefit (DB):** The significant characteristics of a Defined Benefit (DB) plan are predictability and continuity - you cannot outlive your pension:

- Benefits are *not* based on investment returns or how much is contributed to the plan.
- Benefits are determined by a specific formula which considers two variables:
  - Salary
  - Service
- Members are protected from market fluctuations or poor investment choices because investments are pooled in a trust fund, which is professionally managed and risk balanced.

A **Defined Contribution (DC)** plan is just what it says: the contributions are defined, not the benefits:

- The amounts deposited are known but the outcome is not.
- The retirement amount is subject to fluctuations in investment returns.
- The risk is on the individual and it is possible to outlive your retirement savings.

The following example, provided by the National Association of Retirement System Administrators (NASRA), compares a DB and DC Plan:

**Scenario 1: DB Plan**
Mary Brown retires at age 65 with an annual DB pension benefit of $25,000
- Her life expectancy is 22 years, which is age 87.
- There is a 25% chance she will live to age 93.
- During the remainder of her expected life, she will collect $550,000 in DB pension payments, plus COLAs. If she lives longer, she will collect more. She cannot outlive her pension; it will continue to be paid, even if she lives beyond age 93.

**Scenario 2: DC Plan**
If Mary Brown had a DC plan, in order to be assured she can draw $25,000 each year for the 22 years between ages 65 and age 87; she would need approximately **$325,000** at retirement.
In order to accumulate $325,000, Mary would need to contribute $368 every month for 25 years, assuming an investment return of 7.5% She will fall short of that goal if:

- There are gaps in her working life
- Her investment returns are less than 7.5%
- She takes loans or withdrawals
- Her contributions are below $368/month
- If she lives to be older than 87, she will deplete her assets
- Her DC benefit does not protect her from inflation

“Appreciate a defined benefit plan if you have one. The plans tend to be somewhat invisible, since the employer handles them, but if your company has one and you plan to work there a long time, find out all you can about it. If the company wants to drop it, yell…”

Albert Crenshaw, Washington Post

And, they’re not mutually exclusive: Workers don’t have to give up DB Plans or Social Security to get “private accounts.” All workers should be encouraged to build the third leg of the retirement stool with personal savings. NHRS pensions are the cornerstone of public employees’ retirement, but they are not intended to stand alone. According to the NASRA, “A defined benefit plan should serve as an employee’s primary retirement benefit and should be supplemented with access to a voluntary defined contribution savings plan”

Many employers offer a payroll deduction option for pre-tax contributions into a deferred compensation plan such as 403(b) or 457 plans. The message to save early and consistently is in the enrollment packet for the State of New Hampshire’s deferred compensation plan, which provides the payroll deduction deferred comp plan for State employees:

Those who begin saving early and consistently are able to build a larger “nest egg.”

Example assuming an 8% interest rate:

- Susan started saving at age 25. She saved $100/month, contributing $48,000 by age 65. Susan’s nest egg at age 65 = $324,180
- Larry started saving at age 45. He saved $300/month, contributing $72,000 by age 65. Larry’s nest egg at age 65 = $171,798

Source: ING

Public employees may participate in the NH Federal Credit Union, which offers savings accounts, CD’s and other savings choices. As a Credit Union’s brochure advises, “save more: the 10% savings objective that was the standard years ago might leave you short…These days as savings goal of 20% of gross income is a better target…”

Unions can also encourage members to save for retirement. For example, the Professional Firefighters have established PF Pope, as mechanism to help their members save additional funds for retirement. pfpope@profirefigher.com

Tips: Check out the savings programs offered by your employer. Be a wise consumer – if you shop around, you may find something that works better for you. However, you may find that your employer sponsored plan offers several good investment choices.

Are you a disciplined saver? One of the major advantages of saving through payroll deduction is that it takes away the temptation to do something else with that money...
Understanding Your Pension with NHRS

Retire: The most important term

In NHRS terminology, you are retired if you are drawing a pension from NHRS. Since most people think of their retirement date as the day they leave their jobs, this semantic distinction creates some confusion. If you quit your job without filing to draw your pension, NHRS considers you terminated, but not retired.

If you want to start drawing your pension, check the eligibility requirements for your Group in Part III of this booklet. If you are eligible for retirement, you have are two possibilities:

- Service retirement is when you file while you are still at your job (“in service”)
- Vested deferred retirement is when you quit your job (“terminate”) and then apply later to start drawing your pension (“retire”). You must leave your money in NHRS in order to retain your eligibility for vested deferred retirement.

Note: Disability retirement is available for those who meet specific criteria – contact NHRS if you become disabled.

Vesting: A very important term

After you have been a contributing member of NHRS for 10 years, you are vested, which gives you the right to a future pension. You can quit your job and file to start your pension at a future date, as long as you leave your money in NHRS. That’s why it’s called “vested deferred retirement” – you are vested and you are deferring the collection of the pension.

Accumulated Contributions

Your contributions toward your pension, plus your credited interest are reported on your Annual Statement. If you are an employee or teacher, you are contributing 5% of your gross pay and if you’re a police officer or firefighter, you are contributing 9.3% of your gross pay.

Refunds

If you quit your job, you may take your contributions plus your interest as a refund. Refunds are subject to a withholding tax of 20%. And, there is a penalty of 10%, if you are younger than 59 ½ when you take the refund.

You can defer the taxes by rolling your money into another tax sheltered account, but few other accounts earn the 9% rate of return that NHRS credits member accounts. The rate is subject to change by the Board of Trustees. Note: the rate of 9% will be changed to 8.5% as of 7/1/07.

Important: if you take your money out of NHRS, you are forfeiting any benefits that you had earned, including the right to a future pension.
FAQ's

- Can I borrow from my NHRS account?
  No, borrowing is not permitted.

- Do I get my employer's money, too?
  No, the employer’s share is intended to help you build a pension. If you chose a refund instead of a pension, your employer’s share stays in NHRS to help fund other pensions.

- If I return to my job or another job as an NHRS member, can I get credit for that time?
  If you repay what you withdrew, plus interest, you can have that time reinstated toward your pension. You will owe interest to NHRS from the time you took the refund, until you re-pay it. Note: buy-backs after 8/10/03 do not count toward eligibility for the medical subsidy program.

Tip: If you leave your job before you are vested, you are allowed to leave your money in NHRS for two years.

  o If you do not need the money urgently, leave it in the fund. If you return to NHRS membership within the two year period, you avoid the cost of a buy-back – and you've gained additional interest, too.
  o If you don't return within the two year period, you can arrange a roll-over to another tax-sheltered savings account, such as an IRA.

Pension vs. Refund

If you're eligible for a relatively small annual pension, the amount you could take in a refund may look like a better deal. But take another look: in the first 3-7 years, you will get back everything you ever contributed to NHRS. Once you've passed that point, you get further and further ahead. Example:

Sally is 60 and is preparing to retire. She could take a lump sum refund of $100,000 or a pension of $20,000/year. If she takes the pension, she will get back the entire amount by the time she is 65.

  - She will continue to collect a monthly income from NHRS for the rest of her life. Her life expectancy is 87. Without factoring in any cost of living adjustments or the age 65 reduction for Group I members, Sally would collect over $540,000 by the time she reaches age 87.

“AFC” – one of the variables in your pension calculation

Average Final Compensation (AFC) is the average of your three highest earning years.

  - The years don’t have to be consecutive.
  - The years aren’t based on calendar or fiscal years. NHRS determines “your year”, starting at the effective date of your retirement and goes back in 12 month blocks. For example, if you retire May 1, the previous 12 months will be your final year in service.
• Your final year also includes severance pay you receive from your employer within 120 days of your retirement, with the following exception:
  o “The Cap”: your final year can’t be more than 150% higher than your second highest year, for the purpose of the retirement formula.
• Exception to “the Cap” – amounts you are paid for leave that you had on the books June 30, 1991 do not count toward the 150% Cap.

**Service Credit – one of the variables in your pension calculation**

Every month and year that you are a contributing member of NHRS, you earn **Service Credit**. The more service credit you have, the higher your pension will be. (See pension formulas in Section III) The use of longevity as one of the factors in calculating your pension provides you with an incentive to stay in public service.

**Prior Service Credit:** you may also be eligible to purchase Prior Service Credit in a range of categories, under specific rules and circumstances. Remember, only full time public sector service can count. **Note:** Purchases of service credit made after August 10, 2003 do not count toward eligibility for the Medical Subsidy programs.

• **Prior withdrawn service:** if you were an NHRS member, quit that job and took your money out. In order to get the time reinstated toward your pension, you must **repay what you withdrew, plus interest from the date of withdrawal**.

• You may apply to purchase **probationary, temporary, unclassified, out-of-state, federal service, prior military service** and service with your employer before your employer joined NHRS. Two significant changes were made in recent years:
  o **Out-of-state service can now be purchased at any time** prior to retirement. (Previously, there was a deadline – purchases had to be made within 5 years of joining NHRS)
  o Up to three years of prior military service can be purchased. However, only **vested** members may purchase it, and it doesn’t count toward retirement eligibility. For example, a firefighter must still work 20 years as a firefighter or police officer, in order to be eligible for Service Retirement before age 60. The military time, if purchased, would be in addition to the 20 years he works.

**New Provision: Nonqualified service purchase.** Effective 7/24/06, NHRS members who have five or more years of creditable service may apply to purchase as much as five additional years of service. The application is on the NHRS web site under Forms.
If you are considering the purchase of service credit to count toward your NHRS pension, you can make a rough estimate of the cost. The cost is based on your current salary multiplied by the sum of the current employee + the employer rate.

<table>
<thead>
<tr>
<th>Rates effective through 7/1/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Rate</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Employees</td>
</tr>
<tr>
<td>Teachers</td>
</tr>
<tr>
<td>Police Officers</td>
</tr>
<tr>
<td>Firefighters</td>
</tr>
</tbody>
</table>

(Note: the employer rate is projected to increase 7/1/07)

**Example:** Bob is a police officer who wants to buy 2 years of prior military service, to be credited toward his NHRS pension. He is vested and he currently earns $35,000. The cost is based on the sum of employee + employer rates, as a percentage of his current pay.

9.3% + 14.09% = 23.39%.
23.39% x $35,000 = $8,186.50 x 2 years = $16,373

That's a lot of money - how does Bob know if it is worth it?
Bob can figure out what his pension would be, with and without the purchase. The pensions for police officers are based on the Group II formula: AFC x 2.5% x the years of service.
Suppose Bob will retire with 23 years of service, with an AFC of $50,000:
$50,000 x 2.5% = $1250 x 23 years = $28,750 annual benefit
If he buys 2 more years: $50,000 x 2.5% = $1250 x 25 years = $31,250 annual benefit

The purchase will increase his annual benefit by $2,500. It will take Bob 6 ½ years to break even. After that, he’s ahead. He may draw his pension for decades, getting back many times more than he spent. But, did he have other plans for that money, rather than applying it toward his pension? It is a personal financial decision whether to purchase service credit or not.

**Tips:** The regulations concerning the service purchases are subject to legislative changes – refer to the NHRS website for the most current rules, and to find forms to apply for cost calculations.
- If may be worth it for you to get the numbers. **Submitting an application to NHRS does not obligate you to make the purchase.**
- You can make the purchases in blocks of six months or more at a time.
- You can pay with a trustee-to-trustee transfer from a tax deferred 457 or 403(b) account, or use after tax money.

**Two Types of Service Credit Without Cost**

- **Military service, after starting full time public sector work:** NHRS members who have left their jobs for active duty service can get up to 3 years of service credit at no cost. They must return to their NHRS covered employment within a year of discharge. They may apply for the service credit anytime before retirement. It is free, but it is not automatic – be sure to apply.
• **Worker’s Compensation:** Some employees may have missed earning service credit for periods that they were on workers’ comp. Check with NHRS if you are missing service credit for a period of time that you were out on workers’ compensation. **Note:** if you’re not sure whether or not you’re missing service credit, check your annual statement.

**Additional Contributions**

Members are permitted to put additional money into NHRS, if they had been accepted into the Additional Contributions program before it was closed to new applicants. Based on a change in the law, NHRS was unable to accept new applications after December 30, 2004. The members who have been accepted into the program are permitted to put additional money into NHRS for either of two specific purposes:

- To build a pension equivalent to 50% of their AFC. Group I members who work 30 years and Group II members who work 20 years retire on 50% of their AFC, with just their regular contributions. This program helped NHRS members who have shorter careers build the equivalent of a full pension.
- To pre-fund the Early Service Retirement Reduction. Group I members who retire before age 60 receive permanently reduced pensions. The program permitted Group I members to make up the difference, so they could retire without a reduction.

**FAQ’s about Additional Contributions**

• **I applied before the deadline, but I haven’t sent any money. Can I still do that?**
  Yes. Even if you did not start making your contributions yet, as long as you applied before the repeal of the law, and you were accepted into the program, you can start making Additional Contributions anytime.

• **My goal is too high, I’ll never meet it.**
  Even if you don’t meet your goal, your pension will be higher than it otherwise would have been.

• **My application was denied – why was that?**
  If your application was denied, it was because you weren’t eligible for the program. The program is for Group I members who will not have 30 years of service by the time they reach 60, or plan to retire younger than 60, or for Group II members who will not have 20 years of service by the time they reach age 60.

• **Can I use my 457 or 403(b) or other rollover funds?**
  No. Only after tax dollars are accepted for Additional Contributions.

• **Is the 9% interest rate guaranteed?**
  No, the Board of Trustees can change the rate. Effective 7/1/07, the rate will be 8.5%. The rate change coincides with the change in the assumed rate of return on trust fund investments, which is also changing to 8.5% that day.

• **What impact will the rate change have on my goal?**
  If the assumed rate is lowered, it may cost more to reach your goal. If that is the case, you can get a recalculation to set a new goal. Recalculation request forms are on the NHRS website.

• **My salary has increased since I started the program, can I request a new goal?**
  Yes, you can request a recalculation from NHRS, to set a new goal.

• **Will the program start again?**
  Re-establishment of the program would require legislative action.
Filing for Retirement

You must file an application with NHRS to begin collecting your pension. The law requires retirement applications to be submitted 30-90 days in advance of your retirement. The effective date of your retirement is always the first of a month, so there are really only 12 possible retirement dates every year. Here’s how you plan for filing:

- Pick a retirement date, which is the first of any month
- Count back 30 days from that date – that is the last possible day your application can be submitted. It’s better to plan ahead - your application can be accepted up to 90 days before your retirement date. (If you miss the 30 day filing deadline, your retirement date will be delayed to the first of the following month.)
- Pick a termination date (the day you leave your job)
  - If you’re filing for Service retirement, file your retirement application before you leave your job. After you have filed, you can leave your job anytime before the effective date of your retirement. As long as you work at least half the month before your retirement date, you will get service credit for that whole month.
  - You can work right up to the day before your effective date, but if you’re still on the job on your retirement effective date, your retirement can’t become effective until the first of the following month.
  - If you’re filing for Vested Deferred retirement, you file your application after you have left your job. **Note:** if you are trying to decide between Service retirement and Vested Deferred retirement, evaluate the difference in benefits that are described in Section III and consult NHRS.

Survivorship Options

In addition to providing you with a lifetime monthly income, your NHRS pension can be a means of leaving a survivorship pension to a beneficiary. If you choose a survivorship option, your pension will be reduced to reflect the cost of leaving that on-going benefit.

- Exception: Group II members who qualify for Service or Disability retirement may provide a 50% pension to a spouse, until death or remarriage, without a reduction in their pensions.

The reductions for the cost of survivorship options are based on which option you select, your age and the age(s) of your beneficiary(ies).

- It is less costly to leave a pension to a beneficiary who is roughly your age, than to provide it for someone significantly younger. The cost is based on life expectancy - a younger person would be likely to collect the benefit for a longer period of time.

You do not need to make a decision until you are ready to fill out your application for retirement. You can chose to provide a survivorship option, or take the maximum benefit. You also have 120 days after you retire, to change your mind about your option.

- NHRS Benefit Specialists can provide you with an estimate of the cost of each of the survivorship options, based on your estimated maximum pension, your age and the age of your beneficiary(ies).
The Options

**Maximum Retirement Allowance** – You select the full amount based on the formula that applies to you (see Section III). Your beneficiaries do not get a pension. They would receive a return of any of your contributions to NHRS that have not yet been distributed to you through your pension. (NHRS never keeps your own money – it will be sent to your beneficiaries or your estate. You generally receive all your money back within the first 3-5 years of collecting your pension.)

**Option 1**: Reduce the amount of your pension in order to extend the time it will take you to recover all of your own money. (Generally out to 7-9 years). If you pass away during that time, your beneficiaries will receive the remainder of your contributions. They do not get a pension.

**Option 2: 100% Survivorship.** You receive a reduced lifetime pension in order to provide a pension to your beneficiary(ies). After your death, your beneficiary(ies) receive a pension equal to 100% of your reduced pension.

**Option 3: 100% Survivorship.** You receive a reduced lifetime pension, in order to provide a pension to your beneficiary(ies). After your death, your beneficiary(ies) receive a pension equal to 50% of your reduced pension.

**Option 4(A): 100% “Pop-up”** You receive a reduced lifetime pension in order to provide a 100% pension to your beneficiary(ies). However, if your beneficiary(ies) predecease you, your benefit will “pop-up” to the maximum amount that you would have received if you had not selected any survivorship option.

**Option 4(B): 50% “Pop-up”** You receive a reduced lifetime pension in order to provide a 50% pension to your beneficiary(ies). However, if your beneficiary(ies) predecease you, your benefit will “pop-up” to the maximum amount that you would have received if you had not selected any survivorship option.

**Option 4(C): “Make your own option”** You receive a reduced lifetime pension, in order to provide a survivorship pension to your beneficiary(ies) based on percentages other than 50 or 100%. The percentage you select is subject to approval by the NHRS Board of Trustees.

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**FAQ's**

- **What do most people choose?** It’s a personal financial decision. Everyone’s circumstances are different. The “pop-up” options are popular with couples of similar ages. It’s more expensive to provide a pension to a child, but it may be the best way to provide for a disabled child. To help you decide which option is best for you, get an estimate from NHRS about 6 months to a year before you plan to retire. Remember, NHRS Benefit Specialists are not financial advisors – they will explain how your benefit is calculated and what your options are. Take your time to consider your “options” and consult a financial professional, if you like. You can compare the cost of providing for your loved ones through an NHRS pension with other financial mechanisms.

- **Can I leave my NHRS benefit to a trust?** Not at retirement. Only a person can collect a survivorship pension. Before retirement, you can name a trust as your beneficiary. If you pass away before you retire, your contributions plus interest would be sent to your trust. Contact NHRS for details.

* Note: In order to continue to receive the Medical Subsidy, surviving spouses must be receiving a survivorship pension.
PART III

PENSION FORMULAS, ELIGIBILITY AND HEALTH INSURANCE
Group I: Employees and Teachers

All full time public school teachers are Group I members. Employee members include all full time state employees, and those who work for municipalities, counties, school districts and other political subdivisions that have chosen to join NHRS. If you are a Group I member, you are contributing 5% of your gross pay. Your contributions and the employer contributions made on your behalf are invested in the trust fund. This section describes the choices that you have as a Group I member for Service or Early Service Retirement.

**Age 60 formula**: Average Final Compensation divided by 60, multiplied by the years and months of service = annual pension.
Example: $30,000 divided by 60 = $500 x 30 years of service = $15,000 annual pension
The investment gains made over their 30 year careers build a pension equivalent to half of Group I members’ working pay at age 60.

At age 65, the formula changes, resulting in a 10% reduction in Group I pensions.
**Age 65 formula**: Average Final Compensation divided by 66, multiplied by the years and months of service = annual pension.
Example: $30,000 divided by 66 = $454 x 30 years of service = $13,636 annual pension
You can’t change this based on when you retire; if you retire before age 65, your pension is recalculated at age 65. If you retire at age 65 or later, the age 65 formula is used.

**Note**: The examples used here are rounded for years and dollars. Your pension will be calculated individually, based on your salary and service credit. It will be specific to your dollars and cents of earnings and years and months of service.

**Early Retirement: Retiring before age 60**

Do you want to retire before age 60? Remember; retire means to start drawing your pension. If you just quit your job without filing to draw your pension, you have not retired.

As long as you have 10 years of creditable service (service as a contributing member of NHRS), you are vested, which allows you to retire in your 50’s.

Tip: If you are still working at your Group I job after you have turned 60, contact NHRS to file a Pre-Selection of Survivorship. By completing a form, you can protect your beneficiaries to the maximum amount, in the event you pass away prior to retirement. The form is available on the NHRS website under “Death Benefits Before Retirement.”

You can retire younger than 50, if you started very young in public service. If you have at least 20 years of service and your age plus your years of service =70, you can retire before age 50. **Note**: If you are not retiring before age 50, you do not need to meet this “Rule of 70” eligibility requirement. While people might like to retire before 50, it is uncommon, because of the reduction.
**Example**: Jennifer started working for the State when she was 22. At age 46, she’ll have 24 years of service. 46+24=70. She could retire at age 46, but her pension would be reduced by 70% because the 5% reduction factor is multiplied by the 14 years she is younger than 60.
How does the Early Service Retirement Reduction work?

The reduction is based on your years of service and how many years and months you will retire before you reach age 60. Here are the reduction factors:

<table>
<thead>
<tr>
<th>Years of Service</th>
<th>Percentage Reduction per year younger than 60</th>
</tr>
</thead>
<tbody>
<tr>
<td>35 or more</td>
<td>1 ½ %</td>
</tr>
<tr>
<td>30-34</td>
<td>3%</td>
</tr>
<tr>
<td>25-29</td>
<td>4%</td>
</tr>
<tr>
<td>20-24</td>
<td>5%</td>
</tr>
<tr>
<td>10-20</td>
<td>6 2/3</td>
</tr>
</tbody>
</table>

**Example:** Joe is considering Early Retirement at age 55, with 25 years of service. His AFC is $42,000.
The reduction factor for 25 years of service is 4% per year. Joe is 5 years younger than 60, so his pension will be reduced by 20%:
- Use the age 60 formula: $42,000 divided by 60 = $700 x 25 years of service = $17,500
- Calculate the reduction: $17,500 x .20 = $3,500
- Subtract the reduction: $17,500 - $3,500 = $14,000 annual pension

**Factors to consider:**
- $3,500 is a substantial reduction, and it's permanent.
- However, between the ages of 55 and 60, Joe will collect $70,000 from NHRS. (That doesn’t counting any cost of living adjustments that would increase the amount.) He can work elsewhere, as long as it is not a job that requires enrollment into NHRS.
  *Some people view the reduction as a “penalty” but it’s really just an actuarial adjustment, allowing people to collect a lower amount for a longer period of time.*

The other options:
- Keep working at his job and earn more years of service credit. Perhaps his salary will be increased, too. He can retire at age 60, with an unreduced pension:
  $46,000 divided by 60 = $766 x 30 years of service = $22,999
- Quit at 55 and work elsewhere, deferring the collection of his pension. That option is called Vested Deferred Retirement.

**Vested Deferred Retirement for Group I**

Group I members with 10 or more years of creditable service are vested. You can quit your job, and file later for your pension to start. Either closer to age 60, for a less significant reduction, or at age 60 with no reduction.

**Example:** Howard left service after 24 years when he was 52. His pension will be reduced by 5% per year, for each year he’s younger than 60 when he files for retirement. If he filed for Early Service Retirement at 52, his pension would be reduced by 40%. He may decide to wait and file to start collecting at age 58, with only a 10% reduction.
OR, Howard could wait until he turns 60, to start collecting an unreduced pension.

**Disability Retirement:** There are two types – Ordinary (non job-related) and Accidental (job related). To apply for an Ordinary disability pension, you must have at least 10 years of creditable service. There is no minimum service in the event of a job-related disability. **Contact NHRS if you become disabled.**

**Group II: Police Officers and Firefighters**

All fulltime municipal and county police officers, correctional officers and firefighters are Group II members. Group II members working for the State of New Hampshire include state troopers and correctional officers. If you are a Group II member, you are contributing 9.3% of your pay toward building your pension.

**Service Retirement for Group II**

Group II allows you to retire with 20 years of service, at 45 years of age. Both criteria must be met in order to be eligible to draw your pension.

- If you have served 20 years before you reach age 45, you must wait to collect your pension until you turn 45.
- If you are 45, but don’t have 20 years, you must wait until you have 20 years.
  - Exception: If you are working in a Group II job at age 60, you do not need 20 years of service to retire – there is no minimum.

The basic structure of the Group II pension formula allows you to retire with a pension equivalent to half of your working pay, with 20 years of service,

Formula: \[ AFC \times 2.5\% \times \text{years and months of service} = \text{annual pension} \]

Example: Joe’s AFC is $50,000 \times 2.5\% = $1,250 \times 20 \text{ years of service} = $25,000

Group II members who work more than 20 years can earn higher pensions. However, they cannot continue to make contributions or get service credit for more than 40 years of service.

**Tip:** If you are still working at your Group II job and eligible for Service Retirement because:

- You have 20+ years of service and you are age 45+
- OR
- You are 60

Contact NHRS to file a Pre-Selection of Survivorship. By completing a form, you can protect your beneficiaries to the maximum amount, in the event you pass away prior to retirement. The form is available on the NHRS website under “Death Benefits Before Retirement.”
**Vested Deferred Retirement for Group II**

If you quit your Group II job after you have at least 10, but fewer than 20 years of creditable service, you should consider a Vested Deferred pension. You are vested, but you are postponing the collection of your pension until you are eligible. Here’s how it works: If you quit before you are eligible for Service Retirement (20 years/age 45), you can start your pension at the point 20 years would have been completed, and you are at least 45 years old.

*Note: In order to retain eligibility, you must leave your money in NHRS.*

**Example:** Dave left his job as a police officer at age 38 with 12 years of service. His 20 years would have been completed when he was 46. At that point, Dave can file to start collecting his vested deferred pension. His AFC was $35,000 x 2 ½% = $875 x 12 years of service = $10,500. Dave considered taking his money out of NHRS when he left his job, because it was more than $50,000. Here are the factors:

- If he took the refund, he would forfeiting the right to the future pension
- Once he started collecting the $10,500, he would get it all back within 5 years
- He would continue to get $10,500 every year for the rest of his life, and it would increase with cost of living adjustments

**OR**

- He might have plans for the $50,000 when he was age 38, and decide to forfeit the pension and take the refund

**Tip:** If you have quit your job after vesting in NHRS, get an estimate of your future pension before deciding whether or not to take a refund. If you decide to take a refund and later return to NHRS membership, you may want to have your time reinstated. To do so, you must repay what you withdrew, plus interest. If you can’t afford to buy the entire amount, you can buy the time back in 6 month blocks.

**Disability Retirement:** There are two types – Ordinary (non job-related) and Accidental (job related). To apply for an Ordinary disability pension, you must have at least 10 years of creditable service. There is no minimum service in the event of a job-related disability. *Contact NHRS if you become disabled.*

**If you retire from your Group II job on Service or Accidental Disability Retirement you qualify for the Automatic Spousal Allowance:** Group II members who retire on Service Retirement receive a significant additional benefit. You may leave your spouse a survivorship pension equivalent to 50% of your pension, without any reduction in your pension. You may chose to take a reduced pension in order to provide another 50%, which would leave your spouse a 100% survivorship pension. *Note: You do not have to decide on this until you file for your pension – NHRS*
benefit specialists will prepare estimates of the cost of each option.

**Retiree Health Insurance**

**Group Health Plans**

All NHRS retirees have the right to remain on their former employers’ group health plans, at their own expense. Depending upon the employment contract or personnel policy, the employers may or may not contribute to the cost of the plan.

**Note: Employees of the State of New Hampshire Agencies**

If you work for a State agency, please refer to the next section. State retiree health insurance is governed by RSA 21-I:30, which is described in detail starting on page 40.

**Medical Subsidy Program**

NHRS contributes to the cost of keeping retirees on their former employers’ plans, if they are eligible for the post-retirement medical subsidy program.

- Subsidies are paid on behalf of eligible retirees, spouses, and disabled dependent children.
- At age 65, Medicare becomes the primary coverage, and the subsidy payments are applied to a Medicare supplement policy.
- The Subsidy payments are sent directly to the former employer, and they are increased by 8% each July 1. The following amounts are effective July 1, 2006-July 1, 2007:

<table>
<thead>
<tr>
<th>Monthly amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single person, under age 65</td>
</tr>
<tr>
<td>2 persons, under 65</td>
</tr>
<tr>
<td>Single Medicare supplement plan</td>
</tr>
<tr>
<td>2 persons, Medicare supplement</td>
</tr>
</tbody>
</table>

**Funding Problem in the Medical Subsidy programs**

The post-retirement Medical Subsidy programs that provide a contribution toward health insurance premiums on behalf of eligible retirees are currently under-funded. The pensions are guaranteed through an increase in the employer rate, if investments do not gain as expected. There is no such mechanism in place to guarantee the medical subsidy programs.

When the subsidies were initially established, they were *terminally funded* – intended to last for the lifetimes of eligible retirees. The problem arose when the investments did not make the expected 9% per year. The table below shows the dates the subsidies are projected to run out of funds. (For more detail, refer to the funding section in Part 1)

<table>
<thead>
<tr>
<th>Projected to run out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
</tr>
<tr>
<td>Teachers</td>
</tr>
<tr>
<td>Police</td>
</tr>
<tr>
<td>Fire</td>
</tr>
</tbody>
</table>
What does this mean for members contemplating retirement?
It makes your decision more complicated, if you are trying to factor in the medical subsidy into your budget. It is not a guaranteed benefit. There are a couple of scenarios below to illustrate the variables:

The Medical Subsidy Program for Teachers & Employees of Political Subdivisions

For Teachers and Employees of Municipalities, Counties and other Political Subdivisions, subsidy eligibility is based on retirement date. Important: The NHRS definition of “retirement date” refers to the commencement of your pension, not the day you leave your job. Quitting your job without filing for your pension does not mean you are “retired.” In order to retire by 7/1/08, you must meet the filing deadline of 30-90 days in advance of the July 1 date, the last possible day to file would be 6/1/08.

- Not all NHRS service counts toward the subsidy. Purchases made for out-of-state service and prior military service count toward your pension, but not toward subsidy eligibility. Other types of service purchases made after 8/10/03 may also be excluded. Consult NHRS to confirm your eligibility.
- The eligibility criteria listed above apply to Service and Early Service Retirements, not in circumstances of death or disability. Consult NHRS with specific questions.

FAQ
- I’m a teacher with more than 20 years of service, should I retire on or before 7/1/08? Maybe, but don’t do it just for the subsidy - because you can’t count on it. The timing of your retirement is a personal decision based on your future plans, career goals and financial situation.

Example A: Barbara is a teacher who will have 26 years of service in 2008. She will be 58 years old. Her AFC is $52,000. Her pension will be reduced because she is retiring 2 years younger than 60.

\[
\begin{align*}
\text{AFC} & \div 60 = \text{AFC} \times \text{Years of Service} \\
\text{AFC} & \times 8\% = \text{Annual Benefit} \\
\text{AFC} & - \text{Annual Benefit} = \text{Annual Benefit}
\end{align*}
\]

$52,000 \div 60 = $866 \times 26 \text{ years of service} = $22,533

The reduction factor for 26 years is 4% per year. 4% \times 2 = 8%

$22,533 \times 8\% = $1,802 \quad \text{Annual Benefit} = $20,730
Factors to consider:
- The reduction for retiring before age 60 is permanent.
- Since she has less than 30 years of service, Barbara’s subsidy won’t start until she reaches age 60, in 2010.
  - She may have the benefit for only one year. Maybe the legislature will replenish the funding, but there’s no guarantee that will happen.
- What else do we know about Barbara? Does she love her job and want to stay? Or would she prefer to retire and do other things? Can she get health insurance from her husband’s job?

**Example B:** Lucy is a teacher who will have 34 years of service in 2008. She will be 59. Her AFC is $52,000. Her pension will be reduced, because she is retiring one year younger than 60.

\[
\text{\$52,000 divided by 60 = \$866 x 34 years = \$29,444}
\]

The reduction factor for 34 years is 3% per year. 3\% \times 1 = 3\%  
\[
\$29,444 \times 3\% = \$883 \quad \$29,444 - \$883 = \$28,560 \text{ annual benefit}
\]

Factors to consider:
- The reduction is permanent.
- Since she has more than 30 years of service, the subsidy will start immediately in 2008.
  - Lucy may have the benefit for three years. Maybe the legislature will replenish the funding, but there’s no guarantee that will happen.
- What else do we know about Lucy? Does she love her job and want to stay? Or would she prefer to retire and do other things?

*What would you think Barbara should do? How about Lucy?*

**The Medical Subsidy Program for Police Officers and Firefighters**

Eligibility for the subsidy program for Group II members is based on hire date.
- Those who became full time police officers or firefighters as of 6/30/00 will become eligible for the medical subsidy, if they retire on Service retirement.
  - In the event of an Accidental (job-related) death, their surviving spouses and minor children would be eligible for the subsidy.
- Those who were hired by 6/30/05 and who subsequently retire on Accidental (job-related) disability retirement will be eligible for the subsidy.
- **Note:** Group II members who retire on Vested Deferred retirement are **not** eligible for the medical subsidy.
- Not all NHRS service counts toward the subsidy. Purchases made for out-of-state service and prior military service count toward your pension, but not toward subsidy eligibility. Other types of service purchases made after 8/10/03 may also be excluded. **Consult NHRS to confirm your eligibility.**
**Split Benefits**: NHRS members who have worked in both Group I (employee or teacher) jobs and Group II (police officer or firefighter) jobs.

- **Split benefit pensions** are calculated using the Group I formula for the Group I time, and the Group II formula for the time worked in Group II. Your pension will be the sum of these two parts. The average final compensation (AFC) used for the calculations is based on your entire period of service.
- **Medical subsidy eligibility** is based on the eligibility requirements for the Group the member is retiring from.
  - Split benefit members retiring out of Group II must have been hired into a Group II job by 6/30/00, and retire on GII service retirement: 20 or more years of service at age 45 or older, or retire at age 60 or older. Or be hired into a Group II job as of 6/30/05 and subsequently retire on a job-related disability.
  - Members retiring out of Group I must have 20 or more years of service and retire by 7/1/08.
  - **Note**: Group I and Group II medical subsidy programs were implemented at different times, with different eligibility criteria. There is no provision for eligibility based on combined service for those with Split Benefits. If members with Split Benefits do not meet the criteria for either the Group I or the Group II medical subsidy, they are not eligible for the program.

**What can be done to replenish the Subsidy?**

Member unions and associations, employer groups, NHRS administrators and legislators are looking for solutions. Stay in touch with your associations, union reps and legislators. Refer to the list of sponsoring organizations at the beginning of this booklet.

### Summary: FAQ's

- **If the funds run out, are the current retirees grandfathered?**
  No. If funds are not replenished, even the retirees who are already participating in the program will no longer have the benefit paid.
- **What about teachers and employees with at least 20 years of service, who retire by 7/1/08?**
  Those who meet eligibility requirements will not continue to receive the subsidy, if there is no money to pay it. If you are not planning to retire anyway, it may not be wise to retire solely to attain eligibility for a benefit that might not be there. This will become a huge planning problem for teachers and school districts, if it is not resolved fairly soon.
- **What about police officers and fire fighters hired after 6/30/00, and teachers and employees retiring after 7/1/08?**
  They will not be eligible unless the programs are extended by the legislature.
Health Insurance for Retirees from State Agencies

Eligible retirees from the State are currently provided with fully paid health insurance, for retiree and spouse. The following charts indicate eligibility criteria for health insurance based on service and vested deferred retirements.

### Group I State Employees

<table>
<thead>
<tr>
<th>Condition</th>
<th>Fully Paid State Retiree Health Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hired before 7/1/03 and retire with <strong>10+ years</strong> of creditable state service</td>
<td>Eligible at age 60</td>
</tr>
<tr>
<td>Hired on or after 7/1/03 and retire with <strong>20+ years</strong> of creditable state service</td>
<td>Eligible at age 60</td>
</tr>
<tr>
<td>Retire with <strong>30+ years</strong> of state service</td>
<td>Eligible at any age</td>
</tr>
</tbody>
</table>

### Group II State Employees – Police Officers and Firefighters – Including State Troopers, Correctional Officers, and Conservation Officers

<table>
<thead>
<tr>
<th>Condition</th>
<th>Fully Paid State Retiree Health Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retire on Service retirement: 20+ of service years at age 45+, or age 60 with no minimum service</td>
<td>Eligible at retirement</td>
</tr>
<tr>
<td>Hired before 7/1/03 and retire on Vested Deferred retirement, with 10+ years of creditable state service</td>
<td>Eligible at retirement</td>
</tr>
<tr>
<td>Hired on or after 7/1/03 and retire on Vested Deferred retirement, with 20+ years of creditable state service</td>
<td>Eligible at retirement</td>
</tr>
</tbody>
</table>

### What is the relationship between the NHRS Medical Subsidy programs and the fully paid health insurance coverage for retired state employees?

The subsidy payments made by NHRS on behalf of eligible state retirees help the state pay for retiree health insurance. Most retirees are unaware of whether or not any payments are made on their behalf, because there is no difference in the level of benefit for those who are subsidy eligible and those who are not. The subsidy payments are practically invisible to state retirees because health insurance premiums for retired state employees have been fully paid by the state since 1973. Unless they look closely at the monthly advise copy of their pension check, state retirees might be unaware that NHRS contributes toward their health insurance.

### Is the subsidy important for state employees?

If the State stopped paying the full cost of the premium, the NHRS medical subsidy could become significant. For FY 2005, the State spent $52.3 million for retiree health insurance. Although many state retirees believe fully paid health insurance is a guaranteed benefit that is not the case. According to RSA 21-I:30, it is provided “within the limits of the funds appropriated at each legislative session.” If the legislature does not appropriate sufficient funds to pay the premiums, retirees could be responsible for all or part of the cost of their health insurance.
The NHRS subsidy program pays the state about $11 million per year, toward the cost of the premiums for eligible state employees. The remainder of the cost, about $41 million, is paid by the General Fund. Below are the amounts for FY 2005:

<table>
<thead>
<tr>
<th>Annual Cost to the State for the Premium</th>
<th>Annual amount of medical subsidy paid to the state by NHRS on behalf of eligible retirees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single retiree, under age 65</td>
<td>$9,775.56</td>
</tr>
<tr>
<td>Retired couple, under age 65</td>
<td>$19,441.20</td>
</tr>
<tr>
<td>Single retiree, 65+</td>
<td>$4,950.96</td>
</tr>
<tr>
<td>Retired couple, 65+</td>
<td>$9,880.68</td>
</tr>
</tbody>
</table>

Note: At age 65, retirees apply for Medicare, which becomes their primary insurance. Currently, the State fully covers the cost of a Medicare Supplement Policy, and the subsidy contributes toward that premium.

NHRS is sending the State a monthly amount toward the cost of health insurance on behalf of state retirees who meet the following criteria:

**Group I State Employees**

<table>
<thead>
<tr>
<th>NHRS Medical Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retire by 7/1/04, with 20+ years of Group I creditable service</td>
</tr>
<tr>
<td>Eligible at age 60</td>
</tr>
<tr>
<td>Retire by 7/1/04, with 30+ years of Group I creditable service</td>
</tr>
<tr>
<td>Eligible at age 55</td>
</tr>
</tbody>
</table>

**Group II State Employees**

<table>
<thead>
<tr>
<th>NHRS Medical Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hired by 6/30/00 and retire on Service Retirement: 20+ of service years at age 45+, or age 60 with no minimum service</td>
</tr>
<tr>
<td>Eligible</td>
</tr>
<tr>
<td>Hired by 6/30/00 and retire on Vested Deferred Retirement</td>
</tr>
<tr>
<td>Not eligible</td>
</tr>
</tbody>
</table>

At this point, the subsidy is not a guaranteed benefit — unless the funding is replenished, it is expected to run out for Group I as early as 2011 and for Group II as early as 2019.

**Tip:** Details about the current coverage for retired state employees can be found on the Division of Personnel’s webpage. [www.nh.gov/hr](http://www.nh.gov/hr)
PART IV

RETIREES
What NHRS Retirees Should Know

When should I expect my first check?

Your first retirement check will be mailed out on the last business day of the month, following the effective date of your retirement. If you signed up for automatic direct deposit, your first check will still be mailed to you. The following month the funds will be sent directly to your bank account on the last business day of the month, and you will receive an advice copy in the mail.

What is the difference between Preliminary Benefit and Finalized Benefit?

For the first several months, you are paid a preliminary benefit based on the information NHRS had at the time you retired. Your employer will be reporting your final service and salary amounts to NHRS, so your finalized benefit can be calculated. If your finalized benefit is higher than the preliminary amount, you will receive a retroactive payment at the time you are finalized.

Planning for your beneficiaries

What your beneficiary(ies) receive when you pass away:

- If you have selected a survivorship option, your beneficiary(ies) will be provided with an on-going pension.
- If you are a Group II member who qualified for the automatic spousal allowance, your spouse will receive a 50% pension until death of remarriage, even if you didn’t select an additional survivorship option.
- If you have not selected a survivorship option, there still may be funds available for your beneficiary(ies). They will receive all of your money (the contributions you made to NHRS, plus interest) that you have not yet collected through your pension. Most retirees receive all of their own money back within the first 3-5 years of drawing their pensions. Generally, there would be nothing left for beneficiaries of retirees who pass away after that point.
- If you have not selected a survivorship option, your pension will cease upon your death. It is important for NHRS to be notified, so that additional payments are not made to your account. Statute requires NHRS to recover such payments.

Tip: Be sure to provide information for your beneficiary(ies) so they will know how to contact NHRS if you pre-decease them.
Don’t forget to contact NHRS if you selected a “pop-up” option, if your beneficiary predeceases you:

- If you had selected a “pop-up option”, your pension was reduced to provide a pension to a beneficiary. If your beneficiary predeceases you, your pension will “pop up” to the maximum amount. However, you must contact NHRS to increase your pension. Retirees do not always think about notifying NHRS to implement the pension pop-up when their beneficiaries pass away. Tip: Place a reminder about your NHRS pop-up option with your important documents.

Can I change my beneficiary or option?

- If you have not selected a survivorship option, you can change your beneficiary at any time. In this case, your beneficiary would receive a return of your contributions and interest, if you had not yet drawn it through your pension. (Retirees generally recover all of their own money within the first 3-5 years of drawing their pensions.)

- If you have provided a pension to a beneficiary you can only change under a couple of specific circumstances:
  - Changes may be made up to 120 days after the effective date of your retirement.
    - Or, 120 days after approval of a Disability Retirement by the Board of Trustees
  - If your beneficiary voluntarily renounces his/her right to any future benefit by filing a form with the NHRS Board of Trustees
  - If your spouse is your beneficiary and you are divorced, and he/she subsequently remarries.
  - If your spouse is your beneficiary with a survivorship option and he/she predeceases you, and you subsequently remarry. You may add your new spouse as beneficiary with a survivorship option. (the benefit will be recalculated)

Stay in touch: Be sure to notify NHRS of address changes, bank account changes and beneficiary changes.

Check the NHRS website for Retirement Connection Bulletins

Cost of Living Adjustments (COLAs)

How are COLAs added to the pensions?

You are eligible to receive any approved cost of living adjustments added to your pensions after you have been retired for 12 months. The COLAs are permanent additions to the pensions. COLAs are effective on July 1 of each year, which means the new amount will be in your July check.
How does the retroactive payment work?

If you retired effective July 1 (any year), your July check will reflect the new COLA amount; there is no need for any retroactive payment.

If you retired in a month other than July, you get a retroactive payment in your July check. Here’s the example from the NHRS website: If you retired effective March 1, your July check will include a retroactive payment for the COLA for four months (March through June).

Note: The retroactive payment is in July only. In August, your check is back to normal – it’s based on your pension, plus the COLA.

Are there other reasons for my pension to go down?

Other than the variation between July and August checks due to a retroactive payment in July, there are two possible reasons for a decline in the amount of your pension:

1. If you have a deduction for health insurance. An increase in the cost of health insurance premiums may have caused your insurance deduction to exceed the amount than the COLA added to your pension.

2. If you are in Group I and you have reached age 65. When Group I members turn 65, your pensions are reduced by about 10%. Only the base is reduced, not the amounts that have been added by COLAs. (Refer to page 48 for details about the age 65 reduction.)

Why have the COLA amounts been lower than the rate of inflation indicated by the Consumer Price Index in recent years?

The COLA amounts are set based primarily on the availability of funding. Pensions are the first priority for the NHRS investment gains. During the 1990’s investment earnings exceeded the amounts needed for the pensions, and money was put into a Special Account to fund COLAs and other post-retirement benefits. Until 2001, there were ample funds for COLAs.

When NHRS earnings were lower than expected from 2001-03, no new money could be put aside in the Special Account. The Legislature’s Fiscal Committee considers the CPI data, but they have set COLAs at lower amounts, based on the available balances in the Special Account.

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<th>Fire</th>
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<td>2.5%</td>
<td>5%</td>
<td>5%</td>
<td>2.5%</td>
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</table>
Why do different groups get COLAs of different amounts?

It’s based on funding availability in the Special Account. Each group has different balances within the Special Account. The balances available are due to several variables, including the size of the group and the other post-retirement benefits that have been purchased. For example, the medical subsidy programs for teachers were started with funds from the Special Account in 1999.

How does the Special Account work? What is the “Gentleman’s Agreement?”

Legislators try to maintain a reserve in the Special Account that is equivalent to three years of 5% COLAs, which is known as “the Gentlemen’s Agreement.” The chart below shows the balances in each group’s Special Account. Even though there is more than $250 million in the Special Account, it is significantly below the target reserve of $490 million. Legislators decided to be cautious in 2006, setting a 1% COLA.

<table>
<thead>
<tr>
<th></th>
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<th>Emp Sub</th>
<th>Teach State</th>
<th>Pol State</th>
<th>Pol Sub</th>
<th>Fire state</th>
<th>Fire Sub</th>
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<tr>
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<td>36.2</td>
<td>111.5</td>
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<td>27.2</td>
<td>1.1</td>
<td>37.2</td>
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<td>7/1/06 1% COLA</td>
<td>5.6</td>
<td>3.0</td>
<td>9.9</td>
<td>1.9</td>
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<td>33.2</td>
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<td>9.9</td>
<td>23.7</td>
<td>1.0</td>
<td>34.3</td>
<td>251.4</td>
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<td>Reserve Targeted: 3 years @ 5%</td>
<td>102.3</td>
<td>54.3</td>
<td>181.0</td>
<td>34.6</td>
<td>64.4</td>
<td>1.8</td>
<td>52.1</td>
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<tr>
<td>Balance after reserve</td>
<td>(54.6)</td>
<td>(21.1)</td>
<td>(79.4)</td>
<td>(24.7)</td>
<td>(40.7)</td>
<td>(0.8)</td>
<td>(17.8)</td>
<td>(239.1)</td>
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</tbody>
</table>

FYI: The 1% COLA approved in January cost $26.9 million and left a balance of $251.4 million. Granting a COLA at the 3.5% CPU would have cost $94.2 million, leaving a balance of $184.1 million.

Refer to Section I about the Special Account for more details
Retiree Health Insurance

All NHRS retirees are permitted to stay on their former employers’ plans, at their own expense. Some employers contribute to the cost of the premium. The NHRS Medical Subsidy program may also contribute to the cost of the premium. If retirees owe additional money toward the cost of the insurance, the difference is deducted from their pensions.

The eligibility criteria for the post-retirement medical subsidy program are different for Group I and Group II. (See details on page 37-38.)

Note: If you retired from an agency of the State of New Hampshire, see the section on page 40.

What’s the Plan?

Pre-65: Retirees of counties, municipalities, school districts and other political subdivisions are permitted to stay on the same group plan that is offered to the active employees.

At age 65, Medicare becomes the primary coverage for retirees. (Some may be eligible for Medicare earlier, with certain medical conditions.) Retirees should apply for both Part A and B of Medicare. Also, they can retain coverage through their former employer for group coverage in a Medicare supplement policy. The NHRS Medical Subsidy program pays the former employer toward the cost of that policy, on behalf of eligible retirees.

Tip: Stay in touch with your former employer’s human resource or payroll department for updates on plan changes and open enrollment periods. Many retirees prefer plans that are portable, providing access to medical services while traveling or living out of state.

Tip: If you still have health insurance through your employment or your spouse’s employment when you turn 65, you should check with Medicare to determine whether or not to apply for both Part A and Part B at that time. You may apply for Medicare Part A at age 65, and wait to apply for Part B until three months before your employer sponsored coverage will end.

Subsidy programs are running out of funds

The NHRS Medical Subsidy programs are expected to run out of money.

- The subsidy program for Employees and Teachers is projected to run out by 2011.
- The program for Police Officers is projected to run out by 2019, and the one for Firefighters is projected to run out by 2022.

The Subsidy is paying toward the cost of my health insurance – will I be “grandfathered”?

No. No one is grandfathered under current law. If the funds run out, the subsidy stops for everyone.
**Wasn’t the Subsidy guaranteed? What happened?**

When the subsidy programs were started, they were intended to last for the life times of eligible members. They were “terminally funded” which means that funds set aside would have been adequate, if they grew as projected at a rate of 9% per year. However, the funds lost money during 2001-2002 and only gained 2.5% in 2003.

Unlike the pensions, which are able to compensate for lower than expected investment earnings through an increase in the employer rates, the Medical Subsidy programs do not have a mechanism for making up the shortfall. Retiree groups are working with unions, associations, employers, and legislators to try to find solutions.

**Health Insurance for Retirees from Agencies of the State of New Hampshire**

The State currently pays the full premium for eligible retirees and their spouses. It is not a guaranteed benefit; however. Funds for retiree health insurance must be appropriated in each biennial budget.

**Tip:** State retirees can refer to the website of the Division of Personnel, [www.nh.gov/hr](http://www.nh.gov/hr) for details on the current retiree plans.

**Group I Age 65 Reduction**

Until 1988, Group I retirees’ pensions were subject to a Social Security offset; which reduced their pensions by 40-50%. In 1988, NHRS benefits were no longer impacted by the receipt of Social Security. More than $20 million from the Special Account was used to make up for the difference. However, there wasn’t enough funding available to provide pensions at the age 60 formula for the life times of Group I members.

The age 65 formula results in about a 10% reduction in the pensions of Group I members when they turn 65. This change happens regardless of when you retire or when you collect Social Security.

**Example:** Sally retired at age 60, with 30 years of service. Her AFC was $30,000.

Age 60 formula: $30,000 divided by 60 = $500 x 30 years = $15,000
When she turns 65, Sally’s pension is recalculated using the Age 65 formula:

$30,000 divided by 66 = $454 x 30 years = $13,636

If Sally worked another five years, and retired at age 65, she would start out with the age 65 formula:

$30,000 divided by 66 = $454 x 35 years = $15,890

Sally might not start collecting Social Security until age 67, but that does not change NHRS law concerning the age 65 reduction. Several pieces of legislation proposing to remove or postpone the age 65 reduction have recently been defeated. In the 2006 legislative session, HB
1602 proposed eliminating the reduction for those who retire after January 1, 2008. The cost of funding the change was projected at more than $22 million for the State, municipalities and school districts.

**NHRS Retirees and Social Security**

**Social Security is not linked to NHRS.** Eligibility requirements are separate. You may collect your NHRS pension for years before you are eligible to collect Social Security. For example, Group II members are eligible to collect NHRS service retirement pensions as early as age 45; while they may not collect Social Security until twenty years later.

> Check your annual statement from Social Security for information about your eligibility for early reduced benefits and your eligibility for full benefits.

The restrictions about post-retirement employment are also different.

- Social Security may have earnings limitations.
- NHRS has no earnings limitations for NHRS retirees, unless you retired on Disability Retirement. Those on Disability Retirement are required to report earnings to NHRS.

**Group I and Social Security**

In New Hampshire, the vast majority of teachers, school district and municipal employees work in districts and towns that participate in Social Security.

If you work for one of the few municipalities and school districts that do not withhold FICA taxes from your pay, the section below on Group II & Social Security will also apply to you.

**Group II & Social Security**

Group II members do not pay into Social Security on their Group II wages. Most Group II members are unaware that their Social Security benefits may be reduced if they earn an NHRS pension, based on wages earned outside of the Social Security system. The benefits for their spouses may also be reduced. When Group II members apply for Social Security, they may get an unpleasant surprise because the estimates provided on their annual statements from Social Security may not have taken the reduction into account.

Starting January 1, 2005, employers have been required to provide information to new hires in Group II about the potential impact on their future Social Security benefits. Most Group II members hired before that date remain unaware of the following regulations:

The **Windfall Elimination Provision** (WEP) modifies the formula used to calculation Social Security benefits of those who are entitled to pensions from jobs that did not pay into Social Security. In 2005, the reduction maximum was $313.50/month.
The following information is based on the Social Security fact sheet, Windfall Elimination Provision, **SSA Publication No. 05-10045:**

If you earned a pension outside of the Social Security system, your Social Security will be reduced if you reached 62 after 1985; or if you became disabled after 1985; or if you first became eligible for a monthly pension based on work where you did not pay Social Security taxes after 1985, even if you are still working.

**Why is this?**

The way Social Security benefit amounts are figured, lower-paid workers get a higher return than highly paid workers. For example, lower-paid workers could get a Social Security benefit that equals about 55 percent of their pre-retirement earnings. The average replacement rate for highly paid workers is about 25 percent.

Because the wages earned by public sector workers outside the Social Security had not been counted, they appeared to be low-wage workers. Before 1983, people who worked in jobs not covered by Social Security received benefits that were computed as if they were long-term, low-wage workers. It had not been intended to extend the low-wage advantage to people whose FICA earnings were low because they had a non-FICA job. They received the advantage of a higher percentage of benefits in addition to their other pension. The WEP is intended to adjust for that disparity.

**How does WEP work?**

Social Security benefits are based on the worker’s average monthly earnings adjusted for inflation. The worker’s average earnings are separated into three amounts and multiplied by three factors. For example, for a worker who turns 62 in 2006, the first $656 of average monthly earnings is multiplied by 90 percent; the next $3,299 by 32 percent; and the remainder by 15 percent.

The 90 percent factor is reduced in the modified formula and phased in for workers who reached age 62 or became disabled between 1986 and 1989. For those who reach 62 or who became disabled in 1990 or later, the 90 percent factor is reduced to 40 percent.

There are exceptions to this rule. For example, the 90 percent factor is not reduced if you have 30 or more years of “substantial” earnings in a job where you paid Social Security taxes. As you can see from the table below, the factor is gradually reduced for those who have fewer than 30 years, in the system. This results in more significant reductions for those who have fewer years. For example, those who have fewer than 20 years will retain only 40% of their benefit.
Most Group II members have worked in other jobs that are covered by Social Security. The more years you have had “substantial earnings” in the Social Security system, the lower the percentage reduction will be.

(See Appendix B for the tables on Substantial Earnings and the fact sheet from Social Security)

Government Pension Offset (GPO) may reduce the spouse’s or widow(er)’s Social Security benefits by two-thirds of the amount of the pension.

Here is the example provided on the newly required disclosure form: If you get a monthly pension of $600 based on earnings not covered under Social Security, \( \frac{2}{3} \) of that amount, $400, is used to offset your Social Security spouse or widow(er) benefit. If you are eligible for a $500 widow(er) benefit, you will receive $100 per month from Social Security ($500 - $400 = $100).*

*Source: Form SSA-1945 Statement Concerning Your Employment in a Job Not Covered by Social Security

Contacting Social Security

Website: www.socialsecurity.gov or call toll-free, 1-800-772-1213. We can answer specific questions from 7 a.m. to 7 p.m., Monday through Friday. We can provide information by automated phone service 24 hours a day. TTY number, 1-800-325-0778

Local Social Security Office: Suite 100, 70 Commercial St. Concord, NH 603-224-1939, TTY 603-225-8475, toll-free 1-800-772-1213

Group II and Medicare

Beginning April 1, 1986, all new hires in Group II should have started paying into Medicare. The Medicare tax of 1.45% is deducted directly from wages. Group II members who have not paid into Medicare may become eligible by working in other jobs that contribute to Medicare, or through a spouse.

Why it's important to qualify for Medicare

Eligibility for Medicare is significant for County & Municipal Group II members:

The NHRS Medical Subsidy program sends payment to the former employers on behalf of eligible retirees, to provide a Medicare Supplement Policy. It is not clear that there is any mechanism for the Subsidy payments to be made for any other plan.

Eligibility for Medicare is significant for State Group II members:

Group II members who were hired before 4/1/86 by the State of New Hampshire (including state troopers, correctional officers, fish and game or liquor enforcement officers) may also be impacted by Medicare eligibility issues. (Check with NH Division of Personnel if you are not eligible for Medicare.)
About three months prior to turning age 65, you should apply for Medicare. If you still have health insurance through your employment or your spouse’s employment when you turn 65, you should check with Medicare to determine whether or not to apply for both Part A and Part B at that time. You may apply for Medicare Part A at age 65, and wait to apply for Part B until three months before your employer sponsored coverage will end.

Group II members who have not paid into Medicare are encouraged to contact Social Security to determine their eligibility.
**SUMMARY: THIS IS YOUR RETIREMENT SYSTEM**

*Your Retirement System* was intended to give members, retirees and others general information about how the New Hampshire Retirement System works. It is not intended to be used in place of NHRS official information, specific to your own situation. It is an overview of how all the pieces fit together to provide your benefits.

We hope it has helped you to “look under the hood” and understand how your pensions are funded, why the COLAs have been low recently, and what’s going on with retiree health benefits. For nearly 40 years, NHRS has provided exceptional pension benefits for New Hampshire’s public employees. We hope this booklet has conveyed the tremendous value there is in your retirement system.
Glossary
Source: NHRS website

**Actuary** - A person professionally trained in technical and mathematical aspects of pensions and other related fields, who estimates how much money must be contributed to a pension plan in order to support the benefit that will become payable in the future.

**Additional contributions** - Extra money paid to NHRS by the active member and/or by the member’s employer on behalf of the member, for the purpose of funding an additional annuity. (Additional contributions do not purchase additional service credit.)
- The program was closed to new applicants on 12/30/04, but those who applied before that date, and were approved for the program are permitted to continue contributing.

**Average final compensation (AFC)** - The average of a member’s three highest years of membership service. A "year" refers to a ten, eleven, or twelve month block of membership service (based on the member’s normal working time), beginning with the member’s effective date of retirement and going back.

**Creditable service** - Service credit earned as an active NHRS member plus prior service credits.

**Defined benefit plan** - A pension plan where retirement pensions are based upon a predetermined formula measured by service and salary credit, not contributions made to the plan.

**Preselection** - Active members who are eligible for service retirement but continue to work are eligible to select a survivorship option at no cost, in order to provide a lifetime pension to any one person or to any number of their children in the event of their death before they actually retire.

**Service retirement** - A pension payable to Group I and Group II members age 60 or older regardless of years of service, and to Group II members ages 45-60 with at least twenty years of creditable service.
- **Early service retirement** - An early reduced retirement pension payable to Group I members at ages 50 through 59, with at least ten years of creditable service. Group I members can collect an early service retirement pension younger than age 50, if they have at least twenty years of creditable service and their years of service plus their age equals at least seventy.

**Split benefits** - A pension based on service credit in both Group I and Group II.

**Survivorship beneficiary** - A person who receives a lifetime pension from NHRS after a retired member’s death.

**Survivorship option** - A reduced pension chosen by a member at retirement that provides a lifetime pension to a survivorship beneficiary(ies) after the retired member’s death.

**Vested deferred retirement** - A retirement pension available to members with at least ten years of creditable service who terminate their active membership and do not withdraw their funds. The pension does not begin upon termination of active membership but begins at a later point in time, when the member meets eligibility requirements.

**Vesting** - At least ten years of NHRS creditable service; a vested member earns the right to a pension.
Appendix A

Contact Information for the New Hampshire Retirement System

54 Regional Dr.
Concord, NH 03301
Phone: 603-410-3500
Toll-free: 1-877-600-0158
Fax: 603-410-3501
www.nhrs.org

NHRS Board Members
July 2006

Public Members
Charlton MacVeagh, 10/05-7/07
Chair Debra Douglas, Vice Chair, 5/04-7/06

Senate
Senator Robert Flanders, 1/03-1/07

House of Representatives
Representative William Zolla, 1/03-1/07

Fire Members
David McLean, 9/99-7/07
Brian Morrissey, 2/01-7/06

Police Members
Dean Crombie, 4/03-7/06
David Kelley, 6/05-7/07

Employee Members
Charles Koontz, 8/02-7/06
Germano Martins, 3/06-7/07

Teacher Members
Sam Giarrusso, 11/03-7/07
Joseph Morris, 1/90-7/06

Ex Officio Member
Michael Ablowich, State Treasurer
Appendix B
Charts on Windfall Elimination Provision

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Statement Concerning Your Employment in a Job
Not Covered by Social Security

Employee Name

Employer Name

Employee ID#

Employer ID#

Your earnings from this job are not covered under Social Security. When you retire, or if you become disabled, you may receive a pension based on earnings from this job. If you do, and you are also entitled to a benefit from Social Security based on either your own work or the work of your husband or wife, or former husband or wife, your pension may affect the amount of the Social Security benefit you receive. Your Medicare benefits, however, will not be affected. Under the Social Security law, there are two ways your Social Security benefit amount may be affected.

Windfall Elimination Provision
Under the Windfall Elimination Provision, your Social Security retirement or disability benefit is figured using a modified formula when you are also entitled to a pension from a job where you did not pay Social Security tax. As a result, you will receive a lower Social Security benefit than if you were not entitled to a pension from this job. For example, if you are age 62 in 2005, the maximum monthly reduction in your Social Security benefit as a result of this provision is $313.50. This amount is updated annually. This provision reduces, but does not totally eliminate, your Social Security benefit. For additional information, please refer to Social Security Publication, “Windfall Elimination Provision.”

Government Pension Offset Provision
Under the Government Pension Offset Provision, any Social Security spouse or widow(er) benefit to which you become entitled will be offset if you also receive a Federal, State or local government pension based on work where you did not pay Social Security tax. The offset reduces the amount of your Social Security spouse or widow(er) benefit by two-thirds of the amount of your pension.

For example, if you get a monthly pension of $600 based on earnings that are not covered under Social Security, two-thirds of that amount, $400, is used to offset your Social Security spouse or widow(er) benefit. If you are eligible for a $500 widow(er) benefit, you will receive $100 per month from Social Security ($500 - $400=$100). Even if your pension is high enough to totally offset your spouse or widow(er) Social Security benefit, you are still eligible for Medicare at age 65. For additional information, please refer to Social Security Publication, “Government Pension Offset.”

For More Information
Social Security publications and additional information, including information about exceptions to each provision, are available at www.socialsecurity.gov. You may also call toll free 1-800-772-1213, or for the deaf or hard of hearing call the TTY number 1-800-325-0778, or contact your local Social Security office.

I certify that I have received Form SSA-1945 that contains information about the possible effects of the Windfall Elimination Provision and the Government Pension Offset Provision on my potential future Social Security benefits.

Signature of Employee

Date

Form SSA-1945 (12-2004)
Appendix C
Background on Fiduciary Duty

New Hampshire's State Statutes and Constitution require that the retirement system be managed solely in the interest of plan participants. These requirements are based in the common law, case law and federal law concepts of fiduciary duty and prudent investor standards.

**RSA 100-A:15 (I)** ... All of the assets and proceeds, and income therefrom, of the New Hampshire retirement system, and all contributions and payments made thereto, shall be held, invested or disbursed in trust solely in the interest of the members and beneficiaries of the system for the exclusive purpose of providing those benefits and defraying those reasonable administrative expenses....

**Article 36-a of the New Hampshire State Constitution** prescribes that "Retirement System funds are to be used only to benefit the System."

**State Supreme Court: NHRS v. Sununu, 126 NH 104, 108 (1985).** (Holding that the NHRS Board is independent of the executive branch) ...Under the common law of trusts, the board of trustees owes the System's members and beneficiaries a fiduciary obligation to manage the System for the benefit of its members and beneficiaries...

Key to fulfilling the fiduciary duty is the System’s ability to function autonomously from state government. Legislation in recent years has clarified the System’s autonomy. Under pension law, the legislature functions a settlor: the entity that established the trust. The legislature is not a fiduciary. Governmental entities are accountable to the citizens who have elected them, not exclusively to plan participants. Fund trustees function as fiduciaries, a legal status requiring specific duties. Pension fund administrative staff and consultants may also function as fiduciaries, should the trustees delegate fund management duties to them.

Fiduciary duties include Prudence and Loyalty.¹
The standard of prudence has evolved in pension case law, beyond the “prudent man” rule that required fiduciaries simply to act in good faith. The prudent investor standard requires the use of modern portfolio theory to improve the level of assets, not simply to conserve them. The highest standard is that of prudent expert, requiring fiduciaries to become experts and/or to hire, carefully delegate and rigorously monitor those charged with fund management duties. To sum up: good faith is not a defense to imprudence, and a good process is more important that a good outcome.

- Prudence in Benefits Administration requires trustees to ensure that correct benefits are paid on time and to the right person.
- Prudence in Legal Compliance requires
  - Open meetings and open records
  - Confidentiality laws
  - Personnel and labor laws that make it possible for employees to speak up
  - Adherence to state and federal laws and regulations (ethics, tax, securities, procurement, etc)

- The duty of loyalty is exclusively owed to plan members and beneficiaries, which includes active members, retirees, and those receiving survivor benefits. The trustees must “manage the fund

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¹ Legal Environment course by Nancy A. Williams, J.D., Principal, National Public Sector Practice Leader, Mercer Human Resources Consulting, Denver, Colorado. Presentation at the CAPPP program, March 30, 2004.
so as to enable the system to meet its obligations not only to current retirees, but also to those expected to retire in the future.”
  - No fiduciary duty is owed to a sub-group of “constituents”
  - No fiduciary duty of loyalty is owed to an appointing authority

The U.S. Supreme Court has ruled that trustees have “an unwavering duty of complete loyalty” to the members and beneficiaries of an employee benefits plan. And further, the “duty to the trust beneficiaries must overcome any loyalty to the interest of the party that appointed the trustee.”

West Virginia case: Retirees sued the Board of Trustees for allowing the legislature not to collect sufficient contributions to pay their benefits. In *Dadisman v. Moore*, 384 S.E. 2d 816 (W. Va. 1988) the Court found that the failure of trustees to act on the legislature’s lack of appropriating the adequate money is a breach of their fiduciary duty as trustees to the retirement system and its participants. The Court asked rhetorically why the board of trustees didn’t appear as petitioners years earlier rather than now as defendants.

**Terms**

**Fiduciary:** Any person who (1) exercises any discretionary authority or control over the management of a plan, (2) exercises any authority or control concerning the management or disposition of its assets or (3) has any discretionary authority or responsibility in the administration of the plan. Person, company or association holding assets in trust for a beneficiary. Fiduciary status extends not only to those persons named in the plan documents or law as having express authority and responsibility in the plan’s investment or management but also covers those persons who undertake to exercise discretion or control over the plan regardless of their formal title. Under general trust law, ERISA and most statutes/ordinances governing public retirement systems, fiduciaries must discharge their duties solely in the interest of the participants and beneficiaries of an employee benefit plan. In addition, a fiduciary must act exclusively for the purpose of providing benefits to participants and beneficiaries while defraying reasonable expenses of administering the plan. The fiduciary is charged with the responsibility of investing the money wisely for the beneficiary’s benefit.

**ERISA** (Employee Retirement Income Act of 1974) Federal statute that requires persons engaged in the administration, supervision and management of pension monies have a fiduciary responsibility. The law that codified decades of case law concerning pension trusts. Private sector trust funds are governed by ERISA, and the spirit of ERISA applies to public sector funds, since the general trust law and case law summarized in ERISA apply to public funds.

**Prudent Person Rule** (a.k.a. prudent man rule) A common law standard applicable to the investment of trust funds. Historically stated: “All that can be required of a trustee in the investment of trust funds is that he conducted himself faithfully and exercise sound discretion. He is to observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of the capital to be invested.”

**Prudent Expert Rule:** The ERISA standards imposed on fiduciaries to act both as a prudent person would act in a similar situation and with single-minded devotion to plan participants and beneficiaries. Having set standards to facilitate the decision-making process. Consider action of internal factors of the fund, hiring, and listening to investment experts and qualified legal counsel, obtaining independent studies when advisable, and considering the financial variable of the prospective course of action. ²

Appendix D
Economic Benefits of Public DB Plans

The National Association of Retirement System Administrators (NASRA) provides research for retirement system boards, labor unions, retirees, and sympathetic policy makers to explain the benefits of DB plans. As a win-win employee benefit, DB plans:

- Allow the public sector to attract & retain quality employees
- It’s cost-effective: Employer contributions only make up about ¼ of the benefits used to pay pensions
- The trust funds promote economic activity due to their superior returns over self-directed accounts

The growth of economic activity was documented in Profitable Prudence: The Case for Public Employer Defined Benefit Plans by Gary W. Anderson and Keith Brainard. The study characterizes public DB plans as financial engines:

“…their assets promote economic growth and vitality. Through their size, broad diversification, and focus on long-term investment returns, public pension funds stabilize and add liquidity to US and foreign financial markets…the $2.3 trillion held by public retirement systems equaled over than 20 percent of the nation’s entire gross domestic product…"

Providing on-going income to retirees circulates money into the economy, creating cost-effective economic growth, through the multiplier effect:

“As consumers, retired pension participants spend their benefits on a range of goods and services. These expenditures increase economic demand and promote employment, generating additional economic activity, which begets additional demand and employment. This is known as the multiplier effect: the effect of a single dollar has an economic impact greater than one dollar as it ripples through the economy…the impact of the higher earnings from DB plans versus those available from DC plans…”

To sum it up, DB Plans are an economic win-win:

“Investing the $2.3 trillion in public pension assets and the flow of benefit payments to annuitants promises a continuous, predictable, and growing source of economic stimulus. Moreover, through efficient asset management and pooling of resources, public defined benefit pension plans have a significant, positive effect on financial markets and the economy.” To extrapolate these computations to the entire economy, a national 2.0% impact would yield a value added from public DB plans of $203 billion: $10.137 trillion (GDP) x 2.0% = $203 billion..

This contribution to the nation’s economy dwarfs the employer contributions of $39 billion to public retirement systems in FY 2002. Indeed, setting aside all the other benefits to employers and employees of DB plans, contributions to public pension plans may be among the best investments a state or local government can make.”
