

Senate Finance Committee

Deb Martone 271-4980

SB 242-FN, relative to the cost of living adjustments for certain group II retirees in the New Hampshire retirement system.

Hearing Date: February 11, 2025

Time Opened: 2:25 p.m.

Time Closed: 2:40 p.m.

Members of the Committee Present: Senators Gray, Birdsell, Pearl, Lang, Rosenwald and Watters.

Members of the Committee Absent: Senators Innis and Carson.

Bill Analysis: This bill establishes a cost of living adjustment in 2025 to be paid by the retirement system on the first \$50,000 of a retired group II member's or beneficiary's allowance. The cost of this supplemental allowance is paid from the state general fund.

Sponsors:

Sen. Gannon

Sen. Avard

Sen. Long

Sen. Watters

Sen. Fenton

Rep. L. Walsh

Rep. Harb

Rep. Rice

Rep. Guthrie

Rep. Khan

Who supports the bill: Arthur Beaudry; John McAllister; Bob Blaisdell; Liz Cote; Glenn Brackett; Alan Raff; Sarah Katz; Judith Ackerson; Kenneth Ackerson; William Yacopuci.

Who opposes the bill: Rep. John Potucek; Brodie Deshaies; Cindy Kudlik; Julie Smith; Gordon Springate; Tom Luther; Jill Bouchillon; David Bouchillon; Scott Burns; Angel Brisson; David Brisson; Ray Chadwick.

Who is neutral on the bill: Mark Cavanaugh.

Summary of testimony presented in support:

Senator Birdsell, on behalf of Prime Sponsor Senator Gannon:

- SB 242-FN establishes a cost-of-living adjustment in 2025 to be paid by the retirement system on the first \$50,000 of a retired Group II member's or beneficiary's allowance. The cost of this supplemental allowance is paid from the General Fund. Senator Gannon is now extremely concerned about the cost to the system in excess of \$98 million. Senator Gannon no longer wants to move forward with the bill.

Arthur Beaudry, New Hampshire State Permanent Firefighters Retirement Association:

- Mr. Beaudry is a retired captain from the Manchester Fire Department, and a past Trustee of the New Hampshire Retirement System for 13 years.
- Prior to the establishment of the special account in 1983 to fund cost-of-living adjustments (COLAs), the COLA was granted by the Legislature and funded through the General Fund from 1967 to 1983. From 1983 to 2012, annual COLAs were granted based on the availability of funds through the special account. The COLA amount ranged from 1 percent to 5 percent based on the CPI and funds available in the member group account. In 2007, HB 653 changed the funding trigger for the special account and retained \$204 million in the corpus of the fund that would have gone to the special account. In 2008, HB 1645 transferred \$250 million from the special account to the corpus of the fund. In 2011, House Bill 2 transferred \$167 million from the special account to the corpus of the fund, and in 2012, House Bill 1483 eliminated the special account and transferred the remaining \$16 million from the special account to the corpus of the fund. The elimination of the special account and the transfer of \$637 million from the special account to the corpus of the fund have precluded any further COLAs from being granted to New Hampshire Retirement System retirees unless enabling legislation is enacted.
- Retirees have received only one COLA since 2010. It was a 1.5 percent cost-of-living raise, capped at the first \$50,000. Over the last decade, the cost of living based on the CPI has increased by 28.4 percent, while the COLAs granted to Group II police and firefighters over the same time period was only 1.5 percent.
- Over the last 20 years, the cost of living has increased by 51.85 percent, while COLAs granted to Group II police and firefighters over the same time period was only 7.75 percent. Over 44 percent of pensioners' purchasing power has been eliminated due to inflation and the lack of adequate COLAs.
- The past \$500 stipend went predominantly to Group I. Out of the \$11.6 million fiscal note, Group I received \$10.75 million. That is over 92 percent of the \$11.6 million. Social Security, on average, increased by 2.62 percent a year over the last 20 years, totaling 52.3 percent. Unlike Group I, Group II police and firefighters do not receive Social Security under the Windfall Elimination Provision of 1984. If a member were eligible for Social Security, their benefits would be reduced by at least 40 percent, and as much as 90 percent, depending on their pension.
- The New Hampshire Retirement System Group II members predominantly rely on their retirement system income.
- Mr. Beaudry reviewed his handout with committee members. The first handout, showed what a \$30,000 pension under the retirement system with COLAs over the last 20 years would have ended up with. After 20 years, a \$30,000 pension in the New Hampshire Retirement System for police and fire would be \$32,373. On the second page of the handout, over that same time period, the CPI for police and fire would have been \$49,805. That is a \$17,432 difference that a member should have been receiving.
- Mr. Beaudry included Social Security so the committee could see the difference in what individuals were receiving. Social Security over the same 20 years would

have been \$50,051, which is a difference of \$17,834. He stated there must be a differentiation between Group I and Group II because of Social Security.

- Due to the cost of living, a \$2,000 pension only holds the value of \$937 after 20 years without a cost-of-living raise.
- Retirees have been waiting, and it is unethical to indicate retirees would receive a COLA and then not follow through.
- Senator Gray inquired why Mr. Beaudry did not address the unfunded liability for the state retirement system. Mr. Beaudry responded that the unfunded liability is \$5 billion. He informed committee members there is a mechanism to get that amount paid off by 2039. The normal rate for police and fire is less than paying into Social Security. Senator Gray asked how much the cost of living would affect the unfunded liability. Mr. Beaudry responded the cost is \$90 million, but if the state picks up the bill, there is no cost to the unfunded liability. There are tiers of unfunded liability, the first ending in 2039. This legislation would be the second tier.
- Mr. Beaudry stated it feels like retirees are being held hostage over the unfunded liability, despite the fact there was an obligation that has since evaporated.

John McAllister, Secretary of the Treasury, Professional Fire Fighters of New Hampshire:

- Mr. McAllister is a 25-year member of the Nashua Fire Department.
- He stated retirees worked a noble public service career for 25-plus years.
- As the cost of living throughout the country continues to rise, these members continue to fall behind. Many New Hampshire retirees continue to live in the state of New Hampshire once they retire. They continue to pay their property taxes and take vacations. They also continue to invest their money in this state.
- The National Institute on Retirement Security provides an economic profile for each state across the country. In 2021, their research concluded for every dollar of taxpayer contributions through the employer rate, a net of \$6.10 of economic impact is returned to the New Hampshire economy. In addition to supporting the New Hampshire economy from the 38,352 pensions, they saw \$210.4 million paid in federal, state, and local property taxes.
- Retirees continue to pay their fair share. It is now the state's responsibility to reward these members who have provided a lifetime of dedicated service to the state of New Hampshire and their local fire departments and police departments.
- John McAllister restated PFFNH's commitment to support SB 242-FN.

Neutral Information Presented:

Mark Cavanaugh, Deputy Counsel and Chief Compliance Officer, New Hampshire Retirement System:

- The retirement system takes no position on the bill, but warns that there is a similar bill in the House that would cover both Group I and Group II. The cost is different, and there is a lesser benefit of 1.5 percent for those who had five years of service or more. He urged the committee to be cautious and not pass both bills.

- Senator Rosenwald sought confirmation she understood the language starting on Line 23, III. She asked if the COLA becomes part of the base pension as well. Mr. Cavanaugh responded she was correct. As opposed to a temporary supplemental allowance (which is usually a \$500 check you receive one time), this is an “X” percent increase that is reflected, and that is what adds to the present value cost.
- Senator Lang clarified it appears this becomes a permanent, ongoing liability. Mr. Cavanaugh responded by explaining if someone received an extra \$750 as a result of SB 242-FN, it would be \$750 every year for the rest of their life. The \$100 million they are talking about in the fiscal note is an ongoing \$100 million expense to the state. Mr. Cavanaugh stated that was not the case. Instead, that is the present value of all the future obligations.

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Date Hearing Report completed: February 12, 2025