

HB 497-FN - AS INTRODUCED

2021 SESSION

21-0466

10/08

HOUSE BILL ***497-FN***

AN ACT allowing a school district to exempt its chief administrative officer from compulsory participation in the retirement system.

SPONSORS: Rep. Long, Hills. 10

COMMITTEE: Education

ANALYSIS

This bill allows a school district to have its superintendent not be required to be a member of the state retirement system and by contract to provide for an equivalent payment to such superintendent for contribution in private retirement accounts.

Explanation: Matter added to current law appears in ***bold italics***.
 Matter removed from current law appears ~~[in brackets and struckthrough]~~
 Matter which is either (a) all new or (b) repealed and reenacted appears in regular type.

STATE OF NEW HAMPSHIRE

In the Year of Our Lord Two Thousand Twenty One

AN ACT allowing a school district to exempt its chief administrative officer from compulsory participation in the retirement system.

Be it Enacted by the Senate and House of Representatives in General Court convened:

1 1 Retirement System; Modifications; School District Officers. Amend RSA 100-A:22 to read as
2 follows:

3 100-A:22 Modifications.

4 **I.** Membership in the retirement system shall be optional for officers and employees of the
5 employer who are in the service of the employer on the date when participation becomes effective,
6 and any such officer or employee who elects to join the retirement system within one year thereafter
7 shall be credited with prior service covering such periods of prior service rendered to such employer
8 for which the employer is willing to make accrued liability contributions. If the employer is unable
9 or unwilling to make such contributions, a member in service may petition the board of trustees for
10 periods of prior service rendered to such employer. Upon payment by the member of the amount
11 determined in accordance with RSA 100-A:3, VI(b) and with the approval of the board, the member
12 shall receive credit for such prior service. Thereafter, service for such employer on account of which
13 contributions are made by the employer and member shall also be considered as creditable service.
14 However, in no event shall prior service purchased as creditable service under this section be used as
15 creditable service for the purpose of eligibility for medical benefits under RSA 100-A:52, RSA 100-
16 A:52-a, or RSA 100-A:52-b.

17 **II.** Membership shall be compulsory for all employees entering the service of such employer
18 after the date participation becomes effective. Municipalities, **or school districts**, may, by action of
19 their city council [or], board of selectmen, **or school board**, exempt their chief administrative
20 officer, at the time of initial hiring or appointment, from compulsory membership provided herein.
21 The chief fiscal officer of the employer, and the heads of its departments, shall submit to the board of
22 trustees such information and shall cause to be performed with respect to the employees of such
23 employer, who are members of the retirement system, such duties as shall be prescribed by the
24 trustees in order to carry out the provisions of this chapter.

25 2 New Section; School Superintendents; Retirement Benefits; Contract Option. Amend RSA 194
26 by inserting after section 4 the following new section:

27 194-C:4-a Superintendent Benefits; Retirement Contributions. A school district or school
28 administrative unit exempting their chief administrative officer from compulsory retirement system
29 contributions under RSA 100-A:22, II may by contract pay to the superintendent a sum equivalent to
30 the employer contribution determined under RSA 100-A for contribution into a qualified retirement

HB 497-FN - AS INTRODUCED

- Page 2 -

1 plan under the United States Internal Revenue Code. If a superintendent chooses this option, and
2 the superintendent and his or her school district have made contributions to the state retirement
3 system in RSA 100-A, then up to 3 years of past employee contributions and school district employer
4 contributions to the state retirement system may be transferred to the superintendent's private
5 retirement account, subject to such restrictions or qualifications as may be required by the
6 retirement system in conformity with applicable provisions of the United States Internal Revenue
7 Code of 1986, as amended.

8 3 Effective Date. This act shall take effect 60 days after its passage.

HB 497-FN- FISCAL NOTE
AS INTRODUCED

AN ACT allowing a school district to exempt its chief administrative officer from compulsory participation in the retirement system.

FISCAL IMPACT: ☒ State ☒ County ☒ Local ☐ None

STATE:	Estimated Increase / (Decrease)			
	FY 2021	FY 2022	FY 2023	FY 2024
Appropriation	\$0	\$0	\$0	\$0
Revenue	\$0	\$0	\$0	\$0
Expenditures	\$0	Indeterminable	Indeterminable	Indeterminable
Funding Source:	☒ General	☐ Education	☐ Highway	☐ Other

**POLITICAL
SUBDIVISIONS:**

Revenue	\$0	\$0	\$0	\$0
Expenditures	\$0	Indeterminable	Indeterminable	Indeterminable

* The New Hampshire Retirement System states it is not able to separate the fiscal impact of this legislation between county and local government, therefore the fiscal impact is shown together as political subdivisions.

METHODOLOGY:

This bill allows a school district, by action of its governing body, to exempt its chief administrative officer from being required to participate in the New Hampshire Retirement System (NHRS) at the time of initial hiring or appointment. The school district or school administrative unit (SAU) may then contract with the superintendent to pay a sum equivalent to the employer contribution into a private qualified retirement plan under the Internal Revenue Code (IRC). The bill does not include any mandatory member contributions, which are 7% of payroll,. Up to 3 years of past employer and employee contributions to the NHRS may be also be transferred to this account, subject to IRC provisions.

The NHRS worked with a consulting actuary and assumed that the legislation only applies to superintendents and not chief administrative officers in districts that are part of a n SAU and do not have their own superintendent..

Although the bill states the exemption may be made "at the time of initial hiring or appointment," RSA 194-C:4-a refers to up to 3 years of past contributions made to NHRS. NHRS and the actuary assumed that if a superintendent with 3 or more years of prior service as a superintendent elects to opt out of NHRS, the member would transfer 3 years of past employee

and employer contributions made to NHRS to a private retirement account. Only years of prior service where the member served as a superintendent are eligible for transfer. The member would become a vested member of the plan and receive a benefit for prior service, excluding the years transferred to the private retirement account.

Additional assumptions, based upon the June 30, 2019 contribution rate setting annual actuarial valuation are below:

- 5% of current superintendents would opt out of NHRS, based on the actuary's experience with other system's offering defined benefit plan opt out provisions; such estimate may be high but benefit levels may render the total cost higher than projected
- 102 total superintendents with a salary of \$12,873,045 from 197 school districts (105 reported, 3 did not have an associated salary, thus excluded))
- The demographics of superintendents opting out of NHRS would match those of the active teacher population.
- assumed rate of interest 6.75%
- valuation method entry age actuarial cost method
- payroll growth assumed 2.75% per year (2.25% for Teachers)

NHRS states the total employer contribution includes multiple components: normal cost, unfunded actuarial accrued liability (UAAL) and medical subsidy. For the Teachers group, the employer rate is 21.02% of payroll beginning in fiscal year 2022. The total normal cost rate is 9.82% of payroll for fiscal year 2022. If the total employer contribution is payable in full into a private retirement account, it would effectively amount to a significant benefit increase for future accruals for each affected superintendent since the total employer rate exceeds the total normal cost by 11.20% (21.02% - 9.82%) in fiscal 2022,

NHRS states the changes are expected to have a small impact on the actuarial status of the System and employer contribution rates. It would divert funding from the NHRS medical subsidy and UAAL payoff. If the positions were to leave the System permanently, NHRS covered payroll would decrease, which may raise the UAAL contribution rate by approximately 0.01% of payroll. The net UAAL would decrease marginally through the amortization period with no expected change to the system's funded ratio. Total impact on assets and liabilities is indeterminable and highly sensitive based on the number of superintendents that would be subject to the exemption.

The diversion of employer funding from medical subsidy funding into private retirement accounts would not affect the total paid by the district of such superintendent, but may result in increasing medical subsidy contribution rates for all Teacher employers. This benefit is not

available to current superintendents, but the employer funding for such benefits would go into that member's private plan. The aggregate lower payroll would lead to increased UAAL and medical subsidy rates for all Teacher employers.

NHRS estimates necessary software changes to its PensionGold system would cost \$5,330.

AGENCIES CONTACTED:

New Hampshire Retirement System