

Chairwoman McGuire and Committee Members,

As President of the Professional Fire Fighters of New Hampshire and the Chairman of the New Hampshire Retirement Security Coalition, I submit this testimony and urge you to oppose HB1754-FN-L: *Establishing a state defined contribution retirement plan for state and political subdivision members of the retirement system.*

The NH Legislature has considered dozens of alternative plans to the current NH Retirement System Defined Benefit plan for the past eight years. Each and every time these pieces of legislation have been found Inexpedient to Legislate, tabled and effectively found Inexpedient to Legislate, or sent to Interim Study where ultimately, they are not recommended for further legislation. I believe it imperative for this Committee to heed this legislative history by doing the same and finding HB1754-FN-L Inexpedient to Legislate.

Defined Contribution plans have proven to not be an effective alternative to Defined Benefit plans for public employees. They increase costs, provide lesser benefits, and hurt the retirement security of employees. You can look to other states like Alaska, Michigan, and West Virginia to show the dire consequences of converting from a Defined Benefit plan to a Defined Contribution plan:

“Rather than save states money, these DB to DC switch exacerbated funding problems and drove up pension debt. Changing from a DB plan to a DC plan did not help an existing underfunding problem, and, in fact, increased pension plan costs. Workers under the DC plan face increased levels of retirement insecurity. The best way to address a pension underfunding problem is to implement a responsible funding policy of making the full annual required contribution each year and to evaluate and adjust assumptions as well as funding over time.”¹

NHRS has implemented this responsible funding policy and are eight years into a thirty-year plan to do so. Nothing can fix the mistakes of the past overnight. We must give this plan the time necessary to take effect; a kneejerk reaction to convert our current plan would be irresponsible and have damaging consequences.

Defined Benefit plans provide better benefits at a much smaller cost than Defined Contribution plans:

“Public pensions are funded in advance, over the course of many years, with investment earnings and employee contributions powering asset growth. Consequently, taxpayers pay only about 20 cents on the dollar for pension benefits, which are an integral element of compensation for public-

¹ National Institute on Retirement Security, “*Case Studies of State Pension Plans that Switched to Defined Contribution Plans*,” (February 2015): 1.

sector workers. The remaining 80 cents per dollar of benefit, comes from investment earnings and employee contributions.”²

In fact, New Hampshire’s pension costs are considerably lower than the national average and New Hampshire employers pay half of what other states pay towards the normal pension cost for state and municipal workers. Boston College Center for Retirement Research provided an in-depth report on this issue for the 2017 Decennial Commission stating, “state and local government participating in NHRS are asked to contribute very little to the normal cost for ongoing pension benefits – only 2.7 percent compared to a 5.9 percent national average.”³ This is important to understand that once we allow the amortization of the UAAL to run its course, providing decent, honorable, and affordable benefits to our fire fighters, police, teachers, and state and municipal employees will be extremely cost effective for employers.

The fiscal note for HB1754-FN-L fiscal says that by implementing this plan it will increase the current UAAL by \$1.9 billion dollars. This is because the conversion of the Defined Benefit plan to a Defined Contribution plan would effectively “close the system” and require, under GASB regulations, that the systems current UAAL be paid by employers on a much shorter schedule. This would not be a better plan for New Hampshire’s taxpayers.

Finally, it is important to understand the impact providing secure retirement benefits means for the state and local economies. Each dollar paid out in pension benefits supports \$1.40 in total economic activity in and each dollar “invested” by New Hampshire taxpayers in these plans supported \$6.33 in total economic activity in the state.⁴ It cannot be emphasized enough that by removing the Defined Benefit plan and increasing retirement insecurity for the thousands of employees and retirees will directly impact our state’s economy.

Thank you for consideration on this matter. For these reasons alone, I hope that you find HB1754-FN to be the wrong decision for New Hampshire and recommend it to be Inexpedient to Legislate to the full NH House.

Sincerely,

William McQuillen
President
Professional Fire Fighters of New Hampshire

² National Conference on Public Employee Retirement Systems, “*Public Pensions Are a Good Deal for Taxpayers*,” (August 2017): 2.

³ Boston College Center for Retirement Research, “*New Hampshire Retirement System: A Look Backward and Forward*,” (December 2017): 10.

⁴ National Institute on Retirement Security, “*Pensionomics: Measuring the Economic Impact of DB Pension Expenditures*” (2016).