

Paying Down NHRS Debt Faster Is a Win for Taxpayers



reason
FOUNDATION



Carrying Pension Debt Is Expensive

- ❖ The state government accounts for nearly \$818 million (18%) of the current unfunded pension liabilities held by the New Hampshire Retirement System (NHRS).
- ❖ Pension liabilities are promises made on behalf of the government to public workers and must eventually be fulfilled. Unfunded liabilities operate just like a debt. The longer they are held, the more interest they will accrue and the more their costs will be passed on to future generations.
- ❖ Unfunded pension liabilities accrue interest at the same rates as the NHRS discount rate—currently 6.75% annually—making NHRS unfunded liabilities among the most expensive taxpayer-backed debt held by the state.
- ❖ The state's 2022 revenue has far surpassed the annual budgets of previous years. As of March, actual revenues exceeded expectations by \$252 million, creating a unique opportunity to dedicate some of this one-time windfall to reducing long-term NHRS-related costs and financial risks.
- ❖ Given that budget writers currently have \$252 million in unexpected revenue and costs remain high for the foreseeable future, there is no better time to pay down this debt than right now.

Unfunded NHRS liabilities make the pension system more costly, pressuring government budgets. Paying down pension debt as fast as possible avoids interest costs and saves taxpayers.

Paying Down Pension Debt Faster Is Prudent Fiscal Policy

- ❖ Paying down debt associated with promised, constitutionally protected pension benefits faster is a **time-tested way to save taxpayers money over the long-term by avoiding interest costs.**
- ❖ A payment into NHRS will also immediately lower annual operation costs of funding the system by reducing debt servicing payments.
- ❖ States that have fully funded their pension obligations (e.g., Wisconsin, South Dakota, etc.) are better positioned to face future recessions and budget challenges.

Takeaway: A “catch-up” payment toward the state’s NHRS unfunded liabilities would benefit taxpayers by reducing pension debt and yielding long-term cost savings.

Josiah Bartlett Center for Public Policy Contact —

- Drew Cline, President (cline.jbartlett.org)

Pension Integrity Project Contact —

- Zachary Christensen, Managing Director (zachary.christensen@reason.org)