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A Sentinel special report Inflated income reports hiked retirement packages Unit 38 school employees reaped thousands in excess benefits

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A slew of current and former employees of the Monadnock Regional School District and N.H. School Administrative Unit 38 landed in hot water with the N.H. Retirement System when state officials discovered their reported income had been illegally inflated.

This allowed the employees to collectively reap thousands of dollars in excess benefits.

In the case of at least one employee, former Monadnock Regional High School Principal Daniel E. Stockwell, the practice started when the district was in dire budgetary straits, and money for raises was limited.

In two separate recommendations dated March 11, N.H. Retirement System Hearings Examiner Carolyn F. Johnson said that the cost of health insurance premiums had been illegally added to the employees' reported "earnable compensation." This, in turn, swelled the amount of benefits the employees were - or would have been - entitled to when they retired.

Both recommendations were approved by the system's board of trustees the same day. As a result, the system will recoup the excess benefits paid to the employees unless they ask the board to reconsider the decision, Johnson said.

If this fails, their other recourse is to appeal to the N.H. Supreme Court.

But the employees fall short of fraud since fraud requires intent and the petitioners "did not intend to deceive the NHRS," Johnson wrote in information provided to The Sentinel.

In addition to Stockwell, those named in Johnson's reports are former Unit 38 Business Manager Laurent J. Biron; Emerson School Principal Karen M. Craig and Grace Fernald, Unit 38's payroll manager.

Wayne Miller Sr., a former teacher and assistant to the principal at Hinsdale Elementary School; Penny Sicard, a former nurse for the Hinsdale School District; David Sicard, who previously served as Hinsdale Elementary

School principal and Therese Stepenuck, the former administrative assistant to the Unit 38 superintendent, are also listed in the reports.

The state retirement system notified these employees that they'd incorrectly inflated their reported income - a judgment Monadnock school district attorney Paul L. Apple said his firm appealed on their behalf. Stockwell chose to move forward with his own lawyer. Craig withdrew from the case, and Stepenuck effectively did the same, according to Johnson's report, by not attending any of the proceedings.

What's included - and not - in retirement benefits

Governed by state statute, the N.H. Retirement System is a benefit pension plan funded by employer contributions, employee contributions and trust fund assets. As of June 30, 2006, the system's net assets were \$5.1 billion, according to its Web site.

The monthly benefits to which a person is entitled are determined by a variety of factors, including his "earnable compensation" during his highest paid three years, according to Johnson.

By state statute, "earnable compensation" is defined as their pay rate plus a list of add-ons including overtime, holiday and vacation pay. The value of certain forms of "non-cash compensation," such as meals or living quarters, can also be reported as "earnable compensation," provided they're subject to a federal income tax.

By contrast, employer-provided health benefits can't legally be reported as "earnable compensation" since they're not subject to the federal tax, Johnson wrote in her report.

For the 2002-03, 2003-04 and 2004-05 contract years, after which Stockwell retired, the Monadnock district certified that his compensation was \$93,179, \$101,496, and finally \$108,480, according to Johnson's report.

What the district didn't indicate was that these figures included \$9,046, \$13,824 and \$13,172 in payments for dental and health insurance premiums.

"(Stockwell) testified that he agreed to have the cost of his medical insurance premiums added to his salary after he was shown figures about how it would enhance his retirement benefit," according to Johnson.

Stockwell had the option to use the money to purchase health insurance elsewhere, Johnson wrote in the report, citing testimony from payroll manager Fernald.

But he chose to stay with the group health insurance plan through the Monadnock district and allowed money to be taken out of his paycheck to reimburse the district for the premium costs, according to an agreed statement of facts signed by his attorney, James J. Bianco Jr.

As a result, while Stockwell wasn't actually taking home any more money, the inflated numbers made him eligible for excess retirement benefits that had reached more than \$7,000 by August 2006, Johnson wrote.

The employees "really didn't keep (the money) as compensation," said Timothy J. Crutchfield, the state retirement system's chief legal counsel and interim executive director. "It essentially came in the left hand and went back to the employer in the right hand."

And, Johnson wrote, "All of the petitioners knew that they were receiving their health insurance premium cost as part of their salary. They entered the plan as they neared retirement to increase their retirement benefits because the political situation prevented them from receiving additional compensation through the school-district budget."

A time of budget crisis at Monadnock; the aftermath

Overlapping the time Stockwell's salary began to be inflated by his health insurance benefits, the Monadnock Regional School District was facing a crippling deficit.

Resulting from accounting errors primarily attributed to a former Unit 38 business manager, school officials

learned in late 2000 that the district had overspent by \$571,000 in the 1999-2000 school year. By September 2001, the debt had swelled to more than \$994,000.

In September 2001, then-Superintendent Curtis J. Cardine, who served from 2000 until 2005, told The Sentinel he hoped to erase the deficit by June 2002 without seeking extra money from taxpayers, and he called it a "moral obligation" to pay back the debt within the regular budget.

At roughly the same time, Stockwell said Cardine approached him about padding his salary with his health insurance premiums, according to Johnson's report.

"In 2001, Mr. Cardine suggested to (Stockwell) that the school district could pay him his medical insurance premium as salary and he would be able to retire with about as much money take home as if he were working," Johnson wrote.

Cardine, who now lives in Arizona, described the practice as an attempt to give Stockwell a financial boost and said he had no idea there was anything wrong with it.

"We knew things were going on with (Stockwell's) health at the time," Cardine said. "We wanted him to be able to honorably leave his profession."

Cardine called Stockwell, who has battled cancer and coronary disease, a hero for having faced down a gunman in a classroom in 1991, and described a desire to raise his salary while staying within the budget.

"The amount of money was the same amount of money that several principals were making in the state," Cardine said, adding, "I said, 'The only way we can increase his salary is by doing it this way.' "

But this practice illegally taps a state retirement system afflicted with even greater budgetary woes - with about \$2.7 billion in debt for projected future costs, the Associated Press reported.

And when benefits are artificially inflated, it's taxpayers who indirectly bear the burden, according to Johnson. When the system's income isn't enough to cover the hiked cost of the inflated benefits, it causes employer contribution rates to rise, which would consequently inflate school budgets.

However, Cardine said that a representative from the state retirement system had given him misinformation about what could lawfully be included as "earnable compensation."

Fernald, the payroll manager, who is also named in Johnson's reports, echoed him.

"I personally called the retirement system, asked them if this was an acceptable practice. They had told me that it was," she said, although she doesn't remember exactly who she spoke with. "There was nothing underhanded trying to be done. It was very open, and it was definitely done in good faith."

Karen Craig, similarly, said she'd had no idea there was any problem with the practice and withdrew from it as soon as she found out.

"I was trying to do something I thought everyone was supposed to do. ... As soon as I heard that this was being questioned, I didn't want to be a part of it," she said.

Stepenuck said she also withdrew from the practice when she learned something could be wrong with it.

Now, after retiring last year, Stepenuck will see a slice removed from the benefits she said she'd been counting on. "They will penalize me," she said, "and I did not expect this."

The burden of paying back excess fees was also a concern David Sicard mentioned when testifying before the N.H. Retirement System.

"I don't think we tried to screw anybody," said Sicard, who testified that he'd heard about padding reported

compensation from a former assistant superintendent.

Referencing himself and his wife, Penny, he said, "If this follows through and we are denied this benefit, I don't know how we'll live."

In accepting the additional compensation, Stepenuck said she'd relied on the advice of Cardine that the practice was legal.

"I was told by the person that I trusted the most that this was okay to do," she said, referencing Cardine. "I should have looked into it more closely myself, but he assured me that it was okay to do and that other folks were doing it."

But Cardine, who said he was only "responsible" for Stockwell's case, said that on issues about the employees' medical insurance plans, "I would get my recommendations on what was okay and not okay from the people that dealt with that in the office. ... Mr. Biron at the time."

Biron, who was Unit 38's business manager from 2000-06, was unreachable for comment, as were Wayne Miller Sr., and David and Penny Sicard.

But in a June 19, 2007, letter addressed to the state retirement system, Biron wrote, "The decision to pay my health insurance and to have that amount reflected in my compensation came about as a result of salary negotiations with Superintendent Curtis Cardine.

"I was assured by Superintendent Cardine and Payroll Manager Grace Fernald that this was an acceptable method utilized on a very rare occasion for non-union personnel," he wrote. "Based upon their assurances, I found no reason to question this method."

Biron also referenced in his letter his increased duties when he was jointly working as business manager and the Monadnock district's director of maintenance.

"Unfortunately, the heavy involvement of the Monadnock Taxpayer Association ... made it impossible to give me a salary increase because the budget would never pass," he wrote. "Since I was within two years of retirement, the decision was reached to at least reflect the salary I should have received by paying my health insurance."

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