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# A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that in fiscal year 2000,  
2 the employees' retirement system's funded pension ratio stood at  
3 almost ninety-five per cent. As of June 30, 2005, the system's  
4 funded pension ratio has declined to approximately sixty-seven  
5 per cent. At present, the employees' retirement system  
6 estimates that an infusion of \$3,900,000,000 is needed to fully  
7 fund the system's pension liability--thereby ensuring the  
8 system's ability to pay all benefits earned by state and county  
9 employees. When compared to other large public pension plans in  
10 the nation, the employees' retirement system is among the bottom  
11 ten per cent in terms of the percentage of funded pension  
12 liability.

13           The legislature also finds that the decline in the  
14 employees' retirement system's funded pension liability ratio is  
15 not solely attributable to the system itself. In the recent  
16 past, the periodic diversion of the employees' retirement  
17 system's excess investment earnings by the legislature, poor  
18 investment market conditions, and other unforeseeable



1 circumstances all have contributed to the funded pension ratio's  
2 decline.

3       However, the legislature believes that the full funding of  
4 the employees' retirement system's pension liability is not only  
5 attainable, but imperative to the long-term financial well-being  
6 of the State. Once the employees' retirement system's pension  
7 liability is fully funded, the legislature would be able to  
8 concentrate on other public employment concerns, such as  
9 improving and maintaining the benefits and solvency of the  
10 employer-union trust fund so that health benefits for active and  
11 retired public employees will be ensured.

12       The legislature further finds that, although the State  
13 clearly has a myriad of needs upon which it could expend excess  
14 revenues accrued by the State in times of economic prosperity,  
15 fully funding the employees' retirement system's pension  
16 liability is a unique and important priority because:

- 17       (1) It contributes to the future financial security of all  
18 state and county employees at a time when many private  
19 employers are terminating pension plans and changes  
20 could be made to the Social Security system; and
- 21       (2) The long-range, but achievable, goal of employees'  
22 retirement system self-sufficiency will enable the



1 State and counties to permanently reallocate millions  
2 of dollars in funds annually earmarked for the  
3 employers' share of pension contributions to other  
4 worthy programs such as employee health benefits and  
5 expanded social programs.

6 The purpose of this Act is to reserve and appropriate at  
7 least twenty per cent of the total amount of excess revenues  
8 realized by the State in qualified economically prosperous  
9 fiscal years to the employees' retirement system for the purpose  
10 of paying down the system's unfunded pension liability.

11 SECTION 2. Chapter 37, Hawaii Revised Statutes, is amended  
12 by adding a new section to part IV to be appropriately  
13 designated and to read as follows:

14 "§37- Disposition of excess revenues; unfunded liability  
15 of the employees' retirement system; reduction. (a) Whenever  
16 the state general fund balance at the close of a fiscal year  
17 exceeds five per cent of general fund revenues for the fiscal  
18 year, the legislature in the next regular session shall reserve  
19 and appropriate at least twenty per cent of the total amount of  
20 the excess revenues to the employees' retirement system for the  
21 purpose of paying down the system's unfunded pension liability.

1       (b) The director of finance shall be responsible for  
2 including the twenty per cent appropriation required under  
3 subsection (a) as a part of the executive budget request for the  
4 respective fiscal year.

5       (c) This section shall be inoperative upon a finding  
6 executed in accordance with sections 88-105 and 88-122, and a  
7 declaration by the employees' retirement system, that the  
8 system's pension liability is fully funded and that no future  
9 liability shall accrue against the public employer.

10       (d) If, after a finding and declaration under subsection  
11 (c) has been executed, the employees' retirement system  
12 determines that it is necessary to reinvoke the operation of  
13 subsections (a) and (b), the system shall notify the governor,  
14 the legislature, and the director of finance of the need and the  
15 reasons therefor, and the director of finance, with the approval  
16 of the governor, shall execute the director's responsibilities  
17 under subsection (b)."

18       SECTION 3. There is appropriated out of the general  
19 revenues of the State of Hawaii the sum of \$250,000,000, or so  
20 much thereof as may be necessary for fiscal year 2006-2007, for  
21 the purpose of paying down a portion of the employees'  
22 retirement system's unfunded liability.



1 SECTION 4. The sum appropriated shall be expended by the  
2 employees' retirement system for the purposes of this Act.

3 SECTION 5. This Act shall take effect on July 1, 2006.  
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INTRODUCED BY: Kirk Caldwell

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JAN 24 2006



HB 2693

**Report Title:**

Employees' Retirement System; Unfunded Liability; Appropriation

**Description:**

Addresses employees' retirement system's unfunded liability by appropriating funds to lower the unfunded liability and establish a mechanism to channel funds towards paying off the unfunded liability during years of revenue surplus.

