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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 purpose of this measure is to establish a  
2 policy framework to enable the employees' retirement system to  
3 eventually eliminate its \$5,100,000,000 unfunded liability. The  
4 framework set forth in this measure to enable the employees'  
5 retirement system to become fully funded over a reasonable  
6 length of time (twenty-nine years is contemplated in this  
7 measure) is dependent on several factors, including, for  
8 example, stability in the level of benefits received by current  
9 and former employees. If future legislatures grant additional  
10 benefits, (which includes earlier retirements) the time it will  
11 take for the employees' retirement system to become fully funded  
12 will be lengthened, perhaps significantly, depending on the  
13 level of benefit enhancements granted.

14           SECTION 2. Section 88-105, Hawaii Revised Statutes, is  
15 amended by amending subsection (a) to read as follows:

16           "(a) At least once in each five-year period, commencing  
17 with fiscal year 1994-1995, the actuary shall make an actuarial



1 investigation of the experience of the system and shall  
2 recommend to the board of trustees the adoption for actuarial  
3 valuation of the system of [~~such~~] mortality, service, and other  
4 tables as shall be deemed appropriate and necessary, and the  
5 actuary shall recommend to the legislature for its adoption the  
6 investment yield rate [~~and annual salary increase assumption~~].  
7 The actuary shall further recommend the acceptable funded ratio  
8 for the system, taking into consideration the guaranties of  
9 article XVI, section 2 of the state constitution, section  
10 88-107, and section 88-127."

11 SECTION 3. Section 88-122, Hawaii Revised Statutes, is  
12 amended as follows:

13 1. By amending subsection (b) to read:

14 "(b) The actuarial valuations made for years after  
15 June 30, 1999, shall be based on an eight per cent investment  
16 yield rate, [~~assumed~~] salary [~~increases of four per cent,~~]  
17 increase assumptions adopted by the board on the recommendation  
18 of the actuary appointed under section 88-29, and tables,  
19 contribution rates, and factors adopted by the board or  
20 legislature for actuarial valuations of the system, subject to  
21 recommendations made by the actuary appointed under section  
22 88-29."



1           2. By amending subsection (e) to read:

2           "(e) Commencing with fiscal year 2005-2006 and each  
3 subsequent fiscal year, the employer contributions for normal  
4 cost and accrued liability for each of the two groups of  
5 employees in subsection (a) shall be based on fifteen and three-  
6 fourths per cent of the member's compensation for police  
7 officers, firefighters, and corrections officers and thirteen  
8 and three-fourths per cent of the member's compensation for all  
9 other employees. Commencing with fiscal year 2008-2009 and each  
10 subsequent fiscal year, the employer contributions for normal  
11 cost and accrued liability for each of the two groups of  
12 employees in subsection (a) shall be based on nineteen and  
13 seven-tenths per cent of the member's compensation for police  
14 officers, firefighters, and corrections officers and fifteen per  
15 cent of the member's compensation for all other employees. The  
16 contribution rates shall amortize the total unfunded accrued  
17 liability of the entire plan over a period not to exceed thirty  
18 years.

19           The contribution rates shall be subject to adjustment:

20           (1) If the actual period required to amortize the unfunded  
21           accrued liability exceeds thirty years;



1           (2) If [~~the actual period required to amortize the~~  
2           ~~unfunded accrued liability falls below the established~~  
3           ~~benchmark funding period of twenty five years,~~] there  
4           is no unfunded accrued liability; or

5           (3) Based on the actuarial investigation conducted in  
6           accordance with section 88-105."

7           SECTION 4. Statutory material to be repealed is bracketed  
8 and stricken. New statutory material is underscored.

9           SECTION 5. This Act shall take effect on July 1, 2007.



**REPORT Title:**

ERS; Board of Trustees; Powers and Duties; Accrued Liability;  
Employer Contributions

**Description:**

Authorizes board of trustees of employees' retirement system to set the salary scale assumptions based on recommendations from the actuary. Increases employers' contributions to the employees' retirement system effective 2008-2009. Repeals provision allowing the employer contribution rate to be reduced if the period required to amortize the unfunded actuarial liability falls below 25 years. (SD2)

