

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 3287

February 8, 2008

RELATING TO PUBLIC EMPLOYMENT

House Bill No. 3287 permits non-vested members of the Employees' Retirement System (ERS) to accumulate service credits upon return to work as if no break in service has occurred. The bill also grants employees hired before July 1, 2006 that accrue at least ten years of service, full employer contributions for health benefits upon retirement, regardless of any break in service.

The Department opposes this bill.

Current statutes governing non-vested members of the ERS place certain requirements for restoration of forfeited service credits after a break in service (e.g. restoration of one month of prior service for every month worked after return to service) and the treatment of membership start date. Under statutes governing the EUTF (Chapter 87A, Hawaii Revised Statutes), employees hired before July 1, 1996 that experience a break in service without meeting vesting requirements and subsequently return to work after June 30, 1996, receive upon retirement, employer contributions for health benefits based on their years of service. Similarly, those hired before July 1, 2001 that experience a break in service without vesting and return to work after June 30, 2001, receive health contributions based on years of service and enrollment in a self plan. These ERS and EUTF requirements contain costs through limits on retiree pension and health benefits.

While the specific dollar impact resulting from this proposed legislation is not known at this time, liberalizing these statutory provisions will result in increase costs. Anyone hired before July 1, 1996 and who terminated without vesting could return and immediately be credited with prior service credits under the ERS and be eligible for full employer health benefit contributions. State appropriations for pension accumulation total \$359 million in FY 2008 and increase to \$434 million in FY 2009 due primarily to recent increases in the employer contribution rates authorized by Act 256/2007 SLH. Further, the proposed changes represent benefit enhancements for which a three year moratorium ending on January 2, 2011 was enacted under Act 256. Similarly State health benefit premiums total \$388 million and \$ 414 million in FY 2008 and FY 2009, respectively. The statewide unfunded liability for other post employment benefits (OBEB) ranged between \$6.2 billion and \$9.6 billion as of the June 30, 2006 actuarial valuation. Proposed changes to eliminate the cost containment measures will further exacerbate reported liabilities.

The Department requests that this measure be held.

TESTIMONY BY DAVID SHIMABUKURO
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 3287

FEBRUARY 8, 2008

RELATING TO PUBLIC EMPLOYMENT

Chair Sonson and Members of the Committee:

H.B. 3287 requires the State to pay the entire base monthly contributions into the Employer-Union Health Trust Fund for retirees hired prior to 7/1/96 that cumulatively accrue a total of at least 10 years of credited service either prior to or after a break in service.

ERS members without vested benefit status who return to service will have their membership service credits restored as if no break in service had occurred under this proposal.

We have the following comments and concerns on this Bill:

- Returning Contributory Plan members who previously withdrew their accumulated contributions will have their retirement service credits restored without having to buy back this service. This is unfair to current Contributory Plan members who have paid for all their membership service credits and did not have a break in service.
- Returning Noncontributory Plan members who were not vested would be able to have all of their previous service restored upfront instead of "earning back" one month of previous service for each month of subsequent employment by the returning member. This is not fair to the current Noncontributory Plan members who have returned and worked to "earn back" all their previous membership service credits.
- Hybrid Plan members who withdraw their accumulated contributions currently forfeit all of this service and do not have an opportunity to buy back or acquire this forfeited service if they later return to work for the State or county governments. This Bill will restore all

their forfeited service at no cost. This is unfair to current Hybrid Plan members who have paid for all their membership service credits, did not have a break in service, and did not withdraw their contributions.

- This Bill will afford members an enhanced retirement benefit and will increase the State and county governments' contributions to the ERS and increase the ERS' \$5.1 billion unfunded liability. This is contrary to the provisions of Act 256, Session Laws of Hawaii 2007, which placed a moratorium on benefit enhancements until January 2, 2011.

The ERS Board of Trustees has not yet taken a position on this Bill.

Thank you for the opportunity to testify on this Bill.