TESTIMONY

SB 922

LINDA LINGLE
GOVERNOR OF HAWAII

MARIE C. LADERTA
DIRECTOR

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DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT
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February 11, 2009

TESTIMONY TO THE
SENATE COMMITTEE ON LABOR
For Hearing on Thursday, February 12, 2009
2:45 p.m., Conference Room 224

BY

MARIE C. LADERTA, DIRECTOR

S. B. No. 922

Relating to the State of Hawaii Deferred Compensation Plan

TO CHAIRPERSON DWIGHT TAKAMINE AND COMMITTEE MEMBERS:

My name is Marie Laderta, and I am the Director of the Department of Human Resources Development ("**DHRD**"). I am also the Chairperson of the Board of Trustees ("**Board**") for the State of Hawaii Deferred Compensation Plan ("**Plan**").

DHRD and the Board support this administration bill.

Currently, approximately thirty-five percent (35%) of eligible State, Maui County, Kauai County, and Hawaii County employees participate in the Plan.

The Plan's Board of Trustees is concerned that the Plan seems to have a low participation rate. Industry experts and financial consultants believe that relying on retirement income from an employee's pension (i.e., the ERS) and Social Security alone may not be sufficient to keep up with rising inflation costs. These experts and consultants have concluded that individuals are spending more, saving less, and living longer lives. They, therefore, believe that there is a need for employees to take advantage of tax-deferred compensation plans to assist in saving for retirement. To achieve this, industry experts and financial consultants suggest automatically enrolling employees into these tax-deferred retirement plans.

After carefully considering this matter, the Board unanimously agreed with this suggestion, and proposes to automatically enroll all new State, Maui County, Kauai County, and Hawaii County employees into the Plan. To accomplish this, this bill proposes to deduct one per cent of each employee's gross monthly wages and deposit the monies into a default investment option selected by the Board. However, this bill also provides flexibility to those employees who do not want to participate in the Plan by allowing these employees to opt out of the Plan within ninety calendar days after being automatically enrolled in the Plan. Employees who timely opt out of the plan shall have their mandatory contributions returned back to them without a penalty, subject to changing market prices and the withholding of all applicable federal and state taxes.

The Board believes that more employees need to take advantage of this important employee benefit to assist them in saving more for retirement.

Thank you for the opportunity to testify on this matter.

Respectfully Submitted,

MARIE C. LADERTA

CHARMAINE TAVARES
Mayor

LYNN G. KRIEG
Director

LANCE T. HIROMOTO
Deputy Director

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(Electronic Transmission)

The Honorable Dwight Y. Takamine, Chair
Committee on Labor
State Senate
Conference Room 224
State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Senator Takamine and Committee Members:

RE: S.B. 922, RELATING TO THE STATE OF HAWAII DEFERRED COMPENSATION PLAN

I am Lynn G. Krieg, Director of Personnel Services, County of Maui. While we support the intent of S.B. 922 to encourage and supplement our employees' retirement income, we do not feel that this is the appropriate time to do so given the state of the economy and the investment returns by our deferred compensation plan. In addition, the idea of taking someone's earnings without the individual 's permission just does not sit right with us.

Our new hires are already informed that they will be subject to a 6% retirement contribution to the Employees Retirement System. This proposal would require an additional 1% to be automatically deducted and deposited in the deferred compensation plan. While it includes an "opt out" option, it does not guarantee coverage of any investment losses which are currently occurring more often than not.

The proposal also allows for the Board of Trustees to increase the mandatory deduction amount up to 3% without consulting with the chief human resources officer or chief financial officer of each political subdivision. We assume that the increase will only apply to new hires, but we feel the proposal is unclear and that it should be clarified that such an increase would not apply to all employees currently at the 1% deduction rate at the time of the change.

The Honorable Dwight Y. Takamine, Chair
Committee on Labor
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Another concern we have re this proposal is the fact that although it appears to indicate that new hires have ninety (90) days to make a decision whether to opt out or not, "...the plan or administrator..." has forty-five (45) days to inform the employee about the plan. Retirement planning and investment decisions are not to be taken lightly. As such, if this proposal is to be considered there should be clear requirement that plan education must be handled on a face-to-face basis where the employee is able to ask questions. Also, the ninety (90) day "opt out" period should not start until after the employee has had the benefit of such meeting.

Based on the foregoing concerns we are unable to support this measure at this time.

Sincerely,

LYNN G. KRIEG
Director of Personnel Services

cc: Mayor Charmaine Tavares