TESTIMONY

HB2429 HD1

TESTIMONY BY DAVID SHIMABUKURO
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE SENATE COMMITTEE ON LABOR
ON
HOUSE BILL NO. 2429, H.D. 1

RELATING TO SEPARATION INCENTIVES

MARCH 9, 2010

Chair Takamine and Members of the Committee:

The ERS Board of Trustees opposes the special early retirement incentive benefit provisions in H.B. 2429, H.D. 1 since it will increase the ERS' $6.2 billion unfunded actuarial accrued liability. The ERS' Actuary has previously advised us that it would be prudent to defer any retirement benefit enhancement proposal until a future year when the outlook for the ERS' funded position is more stable.

The Board takes no position on the one-time lump sum cash bonus voluntary severance benefit since this payment will not be considered when calculating retirement benefits.

We would be happy to work with your Committee on any technical changes to carryout the purpose of this Bill.

Thank you for the opportunity to testify on this measure.

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON LABOR
ON
HOUSE BILL NO. 2429, H.D. 1

March 9, 2010

RELATING TO SEPARATION INCENTIVES

House Bill No. 2429, H.D. 1, authorizes the State Executive Branch to offer a voluntary severance or a special retirement incentive benefit to State employees who elect to voluntarily separate from service when their positions are identified for abolishment or when they are directly affected by a reduction-in-force or workforce restructuring plan.

We oppose this bill as the criteria detailed in Section _ 3(c) allowing employees to qualify for a special retirement benefit will increase the unfunded liability of the Employees' Retirement System. The funding of the Employees' Retirement System is based on the assumption that employees meet the age and service requirements specified in the statutes. Any special treatment that deviates from these requirements will result in an actuarial loss and thus, increase the unfunded liability of the system.

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UPW
AFSCME LOCAL 646 AFL-CIO

The Senate
The Twenty-Fifth Legislature
Regular Session of 2010

Committee on Labor
Senator Dwight Takamine, Chair
Senator Brian Taniguchi, Vice Chair

DATE:	Tuesday, March 9, 2010
TIME:	2:45 p.m.
PLACE:	Conference Room 224

TESTIMONY OF THE UNITED PUBLIC WORKERS, LOCAL, 646, ON HB 2429, HD1, RELATING TO SEPARATION INCENTIVES

HB 2429, HD1 authorizes a voluntary severance or a special retirement incentive benefit to state employees who elect to voluntarily separate from service when their positions are identified for abolishment or when they are directly affected by a reduction-in-force or workforce restructuring plan; also, extends to other jurisdictions the option to provide a special retirement incentive benefit to their respective employees.

The United Public Workers, Local 646, strongly supports this measure.

Under the federal Workforce Restructuring Act of 1994 and the Omnibus Spending Act of 1996, the federal government successfully reduced its workforce size by 440,000 through employee buyouts, early retirements, career transitions, and restricted hiring. In its 1996 report, the U.S. General Accounting Office concluded that cash buyouts can be highly effective restructuring tools in workforce reductions.

In 2000, the Legislature adopted Act 253, which authorized the use of separation incentives. The Legislature hoped to emulate the federal government's success with reduction-in-force approaches. Unfortunately the sunset date was not extended beyond 2008.

If properly implemented, a separation incentive program can reduce layoffs and limit the damage to employee morale. The intense frustration, anger, and hurt felt by many of our government workers could have been mitigated if this option were offered during the recent reduction-in-force.

We urge your favorable approval on this measure.

HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

AFSCME
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The Twenty-Fifth Legislature, State of Hawaii
Hawaii State Senate
Committee on Labor

Testimony by
Hawaii Government Employees Association
March 9, 2010

H.B. 2429, H.D. 1 – RELATING
TO SEPARATION INCENTIVES

The Hawaii Government Employees' Association, AFSCME Local 152, AFL-CIO strongly supports the purpose and intent of H.B. 2429, H.D. 1, which allows the state executive branch to offer a voluntary severance or special retirement incentive benefit to state employees when their position is affected by a reduction-in-force, workforce restructuring plan or is identified for abolishment. It also extends to other jurisdictions the option to provide a special retirement incentive to their employees under similar circumstances.

The voluntary severance, as proposed, is a one-time lump sum cash bonus calculated at an unspecified percent of the employee's base salary for every year of service worked, up to an unspecified number of years, and cannot exceed an unspecified percentage of the employee's annual base salary. The special retirement incentive is a benefit offered to employees who meet certain age and years of service requirements.

Act 253, SLH 2000 first established a separation incentive program. Unfortunately, it was not extended beyond its sunset date of June 30, 2008. A well-structured separation incentive program can reduce the need for layoffs and has less potential for damaging employee morale and productivity. During the recent reduction-in-force, the administration did not allow a broad-based retirement option in lieu of a layoff. This option would have been much less disruptive than the approach they used.

We recommend an amendment to H.B. 2429, H.D. 1 that would permit employees with 25 or more years of service to receive two additional years of service credit without reducing their benefit, provided the employees filed for retirement within a defined period. This retirement incentive would not require the position they occupy to be targeted for layoff or abolishment. An early retirement incentive provides another option to reduce payroll and other expenses.

The objective in any reduction-in-force is to reduce expenses by cutting payroll and benefit-related costs. Such cost savings make a reduction-in-force attractive. However, large-scale reductions also entail substantial costs -- such as upfront payouts for accumulated vacation and unemployment insurance; longer-term expenses such as the attrition of valuable employees; and future costs of hiring again when economic circumstances improve.

Thank you for the opportunity to testify in support of H.B. 2429, H.D. 1 with the suggested amendments.

Respectfully submitted,

Nora A. Nomura
Deputy Executive Director

March 8, 2010

Senator Dwight Y. Takamine, Chair
And Committee Members
Committee on Labor
The Senate
The 25th Legislature 2010

Subject: H.B. 2429 HD1 Written Testimony of Support with Amendments

Dear Representative Takamine and Committee members:

If thousands of government employees elect Voluntary Severance or Special Retirement Incentive this would create immense cost savings for the State. As each government employee continues employment future cost will continue to escalate. The goal is to include a greater number of employees with the bill at no or minimal cost. Bellow is suggested amendments or modifications.

For Voluntary Severance Benefit:

The additional lump sum payment will create cost to the State. The vacation payout is adequate and rewards an employee who did not use their vacation leave.

For Special Retirement Incentive Benefit:

The bill identifies employees who are subject to layoffs or humping and who satisfy subsection c (years of service and age combinations) as eligible. To create more salary savings employees who satisfy subsection c could also be identified.

The age part of the combination can be amended to be more inclusive and create more salary savings. The age can be changed from 57 to 55.

The years of service part of the combination can be amended to be more inclusive and create more salary savings. The years of service can be changed from 25 to 20.

The no reduction of pension for the employee will create cost to ERS. The reduction could be retained as the employee will be receiving their pension.

Additional objectives, amendments/modifications:

Passage of the bill or similar will provide an incentive for employees to participate in the ERS buyback program; as the buyback amount is a lump sum payment(benefiting the ERS) but paid to the employee(retiree) as pension over time. 19% of employees eligible for the buyback program participated; Special Retirement Incentive would increase this percentage. This will further increase the assets of the ERS.

The medical costs for the State would increase with the bill. To graduate cost a tiered system can be used; i.e., yr1 of retirement the retiree would receive medical only; yr2 medical, drug; yr3 medical, drug, dental; yr4 medical, drug, dental and vision. Only employees eligible for Special Retirement Incentive would qualify since they satisfy the requirements as retiree under ERS. Medical cost verses employees salary is cost savings for the State.

Layoffs, RIF's or raising taxes? Voluntary Severance and Special Retirement Incentive if structured correctly is a mature win-win process to reduce expense.

Sincerely,

Harrison Iwata
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