

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

February 25, 2010

RELATING TO SEPARATION INCENTIVES

House Bill No. 2429 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.

TESTIMONY BY DAVID SHIMABUKURO
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 2429

RELATING TO SEPARATION INCENTIVES

FEBRUARY 25, 2010

Chair Oshiro and Members of the Committee:

The ERS Board of Trustees opposes the special retirement incentive benefit provisions in H.B. 2429 since it will increase the ERS' \$6.2 billion unfunded actuarial accrued liability. 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.

This Bill affords members a special early retirement incentive benefit without penalties for age or years of service prior to their normal retirement age. This retirement benefit is contrary to the provisions of Act 256, Session Laws of Hawaii 2007, which placed a moratorium on retirement benefit enhancements until January 2, 2011.

We would also like to recommend that the following technical changes as indicated on the attached be made:

- 1) Page 4, line 13 - Add a comma after "89-2" to clarify that the voluntary severance benefit shall not be considered as part of a discharged employee's salary, service credit, or cost item when calculating retirement benefits.
- 2) Page 8, lines 1 to 15 - Replace section -5, "Reemployment" with the proposed language to clarify that the forfeiture of the special retirement incentive benefit would be applicable not only if the individual is reemployed by the State but also if the individual is employed by a county. The proposed language also clarifies the impact on the individual's retirement benefits if the individual returns to work after accepting the special retirement incentive benefit.

- 3) Page 12, line 7 - Add "and -5(b)" after "the provisions in section -3" to clarify that the forfeiture provisions of section -5 would also apply if the other jurisdictions opted to provide the special retirement incentive benefit under section -3.

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.

ATTACHMENT TO H.B. NO. 2429
RELATING TO SEPARATION INCENTIVES
FEBRUARY 25, 2010
TECHNICAL AMENDMENTS

Technical Amendment #1

Add comma after 89-2 on line 13, page 4:

§ -2 **Voluntary severance benefits.** (e) A voluntary severance benefit provided under this section shall not be considered as a part of a discharged employee's salary, service credit, or a cost item under section 89-2, when calculating retirement benefits or sick and vacation leave.

Technical Amendment #2

Delete original language in § -5 on lines 1-15, page 8, and replace with the following:

§ -5 **Reemployment.** (a) No employee who has received a voluntary severance benefit under section -2, shall be reemployed by the State within five years from the date of separation unless the gross amount of the voluntary severance benefit paid is returned to the appropriate fund prior to the commencement of reemployment.

(b) No employee receiving a special retirement incentive benefit under section -3 shall be employed, in any capacity, by the State or any county, unless all benefits derived from the special retirement incentive benefit, as determined by the board of trustees of the employees' retirement system, are forfeited

prior to the commencement of employment and the employee's retirement allowance is suspended as may be required by chapter 88. The employee shall be subject to the age and service requirements under chapter 88 when the employee again retires.

Technical Amendment #3

Add "and -5(b)" on line 7, page 12 after "the provisions in section -3":

§ -10 Optional participation by other jurisdictions.

The city and county of Honolulu, the county of Hawaii, the county of Kauai, the county of Maui, the department of education, the judiciary, the Hawaii health systems corporation, the office of Hawaiian affairs, or the legislative branch of the State or a county may opt to provide the special retirement incentive benefit under section -3 to their respective employees under an official reduction-in-force or a workforce restructuring plan as defined by its separation incentives program guidelines and timeframes developed and administered by the respective jurisdictions.

No civil service employee may elect and receive a combination of reduction-in force, voluntary severance, or special retirement incentive benefits when directly affected by a reduction in-force or workforce restructuring plan. Whenever any of the other jurisdictions, as defined in this chapter, opts to provide the special retirement incentive benefit, the jurisdiction's separation incentive guidelines and use of the

special retirement incentives shall be consistent with all of the provisions in sections -3 and -5(b).

All references to the state executive branch shall apply to any other jurisdictions, as defined in this chapter, opting to provide the special retirement incentive benefit. The chief executive or other appropriate authority of each of the respective other jurisdictions shall ensure that approval of its respective legislative body is obtained before offering the special retirement incentive under section -3.



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION

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The Twenty-Fifth Legislature, State of Hawaii
Hawaii State House of Representatives
Committee on Finance

Testimony by
Hawaii Government Employees Association
February 25, 2010

**H.B. 2429 – RELATING TO
SEPARATION INCENTIVES**

The Hawaii Government Employees' Association, AFSCME Local 152, AFL-CIO strongly supports the purpose and intent of H.B. 2429, 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 5% of the employee's base salary for every year of service worked, up to 10 years, and cannot exceed 50% 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 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,

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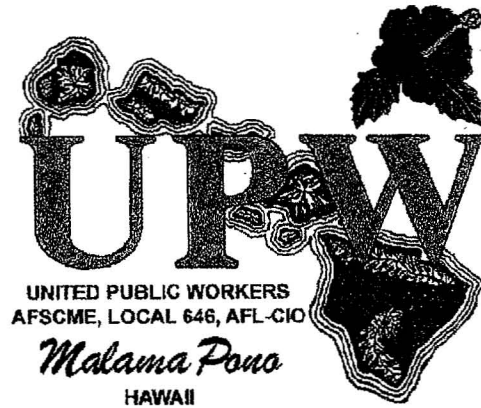
large-scale reductions also entail substantial costs such as upfront payouts for accumulated vacation and unemployment insurance; longer-term expenses such as the attrition of valuable employees; and future costs of hiring again when economic circumstances improve.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Nora A. Nomura', written in a cursive style.

Nora A. Nomura
Deputy Executive Director



House of Representatives
The Twenty-Fifth Legislature
Regular Session of 2010

Committee on Finance
Rep. Marcus Oshiro, Chair
Rep. Marilyn Lee, Vice Chair

DATE: Thursday, February 25, 2010
TIME: 12:30 p.m.
PLACE: Conference Room 308

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

HB 2429 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.

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 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.