

TESTIMONY

SB 2833

TESTIMONY BY DAVID SHIMABUKURO
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE SENATE COMMITTEE ON LABOR
ON
SENATE BILL NO. 2833

RELATING TO THE ISSUANCE OF PENSION OBLIGATION BONDS

FEBRUARY 4, 2010

Chair Takamine and Members of the Committee:

The ERS Legislative and Administrative Committee supports S.B. 2833 since the authorization to issue pension obligation bonds provides a tool to help the State and counties finance employer contributions to the ERS.

Thank you for the opportunity to testify on this measure.

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON LABOR
ON
SENATE BILL NO. 2833

February 4, 2010

RELATING TO THE ISSUANCE OF PENSION OBLIGATION BONDS

Senate Bill No. 2833 authorizes the issuance of pension obligation bonds to fund the employer contributions of the State and counties to the employees' retirement system to reduce the unfunded actuarial accrued liability.

The Department opposes this bill. We do not believe that this bill is necessary as amortization of the unfunded accrued liability for State employees is already included in the assessment rate for the Employees' Retirement System pursuant to Section 88-122, Hawaii Revised Statutes. Section 88-122 provides for a process to systematically review contribution requirements to ensure that the unfunded accrued liability can be paid within the 30-year period specified by the Government Accounting Standards Board.

The Department has researched the risks and benefits of issuing pension obligation bonds and has determined that such issuance is not advantageous for the State. Furthermore, the issuance of pension obligation bonds to fund the actuarially accrued liability would convert a "soft" liability that varies with investment performance into a "hard" actual liability with fixed debt service payments.



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

RANDY PERREIRA
Executive Director
Tel: 808.543.0011
Fax: 808.528.0922

NORA A. NOMURA
Deputy Executive Director
Tel: 808.543.0003
Fax: 808.528.0922

DEREK M. MIZUNO
Deputy Executive Director
Tel: 808.543.0055
Fax: 808.523.6879

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

Testimony by
Hawaii Government Employees Association
February 4, 2010

**S.B. 2833 – RELATING TO THE ISSUANCE
OF PENSION OBLIGATION BONDS**

The Hawaii Government Employees' Association, AFSCME Local 152, AFL-CIO supports the general purpose and intent of S.B. 2833, which authorizes the issuance of pension obligation bonds by the state or counties to fund a portion of the Employees Retirement System's (ERS) unfunded actuarially accrued liabilities through fixed debt service payments at potentially lower interest rates. The pension obligation bonds are designed to help finance employer contributions to the ERS.

The potential benefit of pension obligation bonds is that it may provide cash to the ERS, which may be invested now to lower the unfunded liability and meet future benefit payments. It can also reduce expected annual funding costs due to the difference between the actuarial assumed return through the retirement system and the interest paid on the bonds.

There are definite risks with pension obligation bonds that warrant serious consideration. The primary risk is the failure that the actual return on the purchased investments is less than the funding cost of the debt over the life of the bonds, resulting in additional debt. As long as the cost of money falls below the realized rate of return this is a viable option, but there are no guarantees. After the recent financial crisis, many pension obligation bonds issued since 1992 are in the red, according to the Center for State & Local Government Excellence.

Nevertheless, it appears that pension obligation bonds have the potential to be a useful tool if used at the right time and the Directors of Finance pay strict attention to the considerations proposed in the amendments to Chapters 39 and 47, HRS.

Thank you for the opportunity to testify in support of S.B. 2833.

Respectfully submitted,

Nora A. Nomura
Deputy Executive Director