

TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
HOUSE BILL NO. 1035, H.D. 1

February 25, 2011

RELATING TO EMPLOYEES' RETIREMENT SYSTEM BENEFIT ENHANCEMENT  
MORATORIUM

House Bill No. 1035, H.D. 1, institutes a moratorium on the enhancement of Employees' Retirement System benefits until the system's fund ratio is one hundred percent.

The Department of Budget and Finance strongly supports this amended Administration bill which will allow the Employees' Retirement System to improve and protect its funded status. Placing a moratorium on the enhancement of Employees' Retirement System benefits until the system's fund ratio is one hundred percent will prevent the unfunded liability from growing through enactment of benefit enhancements during this period.

The Administration believes that stability in the level of benefits received by current and former employees is an important factor in facilitating the Employees' Retirement System's ability to eventually eliminate its unfunded liability and ensure the long-term viability of the system.

TESTIMONY BY WESLEY K. MACHIDA  
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
HOUSE BILL NO. 1035, H.D. 1

FEBRUARY 25, 2011

RELATING TO EMPLOYEES' RETIREMENT SYSTEM  
BENEFIT ENHANCEMENT MORATORIUM

Chair Oshiro and Members of the Committee:

The Employees' Retirement System of the State of Hawaii's (ERS) Board of Trustees strongly supports H.B. 1035, H.D. 1 that places a moratorium on benefit enhancements until such time as the ERS has a funded ratio of 100% or more. As outlined below, the employers covered by the ERS already are facing significant increases in their contribution rates. Any benefit enhancements granted at this time would require even larger contribution rate increases.

The ERS unfunded accrued actuarial liability (UAAL) is at \$7.1 billion as of June 30, 2010. The UAAL is likely to increase beyond the \$7.1 billion because of deferred losses of \$1.5 billion that must be applied over the next 2 years, unless significant investment earnings are realized in FY 2011 to offset these losses.

State law requires the UAAL to be amortized (paid off) in 30 years. If the projected amortization period is greater than 30 years, employer contributions are subject to increase. Currently, the amortization period for the UAAL exceeds 40 years. Current employer contribution rates are 15% (9% for the UAAL) of payroll for general employees and 19.7% (13.7% for the UAAL) for Police Officers and Firefighters. If no other legislation is enacted, the employers contribution rates will have to be increased to 23% for Police and Fire employees and 17% for All Other employees in fiscal year 2012 to bring the amortization period back to 30 years.

Based on the \$7.1 billion, the ERS has a funded ratio of 61.4%, which means that the ERS is short by 38.6% of pre-funded monies currently available to take care of current and future pension

benefits. This places the ERS in the bottom 25% of public pension plans.

Furthermore, projections from the ERS Actuary report that the current \$1 billion in annual pension payments to 40,000 pensioners is estimated to increase to \$4 billion in the next 30 years. Moreover, the current \$550 million in annual employer contribution payments is estimated to increase to about \$2 billion in the next 30 years. Sales of ERS's investment assets will likely be needed to cover the shortfall between the benefit payouts and contributions received. Such sales erode the ERS's assets and further undermine its funded status. As a result, solutions are required to prevent the total depletion of ERS's investment assets in the future. One of the solutions that will help with the ERS funding is to prevent future benefit increases that will be detrimental to its funded status and jeopardize its financial viability in the future.

Based on the information provided, the ERS strongly supports the passage of H.B. 1035, H.D. 1. Thank you for the opportunity to testify on this important measure.

Name: Cynthia "Niyati" Brown, HSTA-R

Committee: Finance

Hearing Date: Friday, February 25, 2011 at 10:00 AM

Place: Conference Room 308 State Capitol 415 S. Beretania St.

Bill: HB1035, HD 1

To: Marcus R. Oshiro, Chair, Marilyn Lee, Vice Chair. and Committee on Finance

Dear Representatives,

Thank you for allowing me to enter testimony on HB 1035. As a teacher retiree, I am concerned that this bill would curtail not only benefits available to current retirees in the form of COLAs but those who will retire in the future by limiting their bargaining rights. If there must, due to budget problems, be a moratorium, then I suggest that it have a sunset date and limited duration of no more than two years.

I feel this bill prevents opportunities for discussion and improvement of retiree benefits which will become more and more necessary to attract teachers, police officers, and firemen to our state. A moratorium should be a last resort so that collective bargaining can remain a fundamental right in our state.

Thank you for allowing me to enter this testimony on HB 1035 HD1.

## **FINTestimony**

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**From:** Joel Fischer [jfisher@hawaii.edu]  
**Sent:** Wednesday, February 23, 2011 12:19 PM  
**To:** FINTestimony  
**Subject:** HB1035; FIN; 2/25/11; 10AM, Rm 308

**Importance:** High

HB1035, HD 1; Relating to Hawai'i Employer-Union Health  
FIN; Chair, Rep Oshiro

### **PLEASE KILL THIS BILL, MAKE-DIE-DEAD!!**

Today's entire agenda (#1) is absolutely frightening to me. I have never seen any set of bills that are more anti-worker and anti-elderly. How can a democratic Governor and Democrat-controlled legislature countenance this attack on your most important constituencies? Even Republican administrations would never submit these attacks on workers and the elderly. **HEWA!**

The budget problems in Hawai'i nei are not the fault of workers and retirees. But there is a clear line of blame for these problems: first, the hundreds of millions of dollars wasted on tax credits that do virtually nothing to create jobs, and, second, the tax changes introduced in faux-liberal Ben Cayetano's regime that absolutely robbed the state of hundreds of millions of tax dollars from the rich under the absolutely false assumptions of the trickle-down theory.

Until the Governor and Legislature really attack these inequities, I am unalterably opposed to the bills on today's agenda.

"Everybody" sharing the burden does NOT mean only the poor, elderly and state workers!!

Aloha, joel

Dr. Joel Fischer, ACSW  
Professor Ret.  
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"It is reasonable that everyone who asks justice should DO justice."  
Thomas Jefferson

"There comes a time when one must take a position that is neither safe, nor politic, nor popular, but one must take it because one's conscience tells one that it is right."  
Dr. Martin Luther King, Jr.

"Never, never, never quit."  
Winston Churchill

It is better to be "over the hill" than under it.  
Anonymous