

TESTIMONY BY WESLEY K. MACHIDA
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 1035

FEBRUARY 11, 2011

RELATING TO EMPLOYEES' RETIREMENT SYSTEM
BENEFIT ENHANCEMENT MORATORIUM

Chair Rhoads and Members of the Committee:

The Employees' Retirement System of the State of Hawaii's (ERS) Board of Trustees strongly supports H.B. 1035 that places a moratorium on benefit enhancements until such time as the ERS has a funded ratio of 80% 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

TESTIMONY BY KALBERT K. YOUNG
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 1035

February 11, 2011

RELATING TO EMPLOYEES' RETIREMENT SYSTEM BENEFIT ENHANCEMENT
MORATORIUM

House Bill No. 1035 institutes a moratorium on the enhancement of Employees' Retirement System benefits until the system's fund ratio is at least eighty percent.

The Department of Budget and Finance strongly supports this 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 at least eighty 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.



House Committee on Labor & Public Employment
Friday, February 11, 2011
9:10 a.m. – 11:00 a.m.

HB 1035, Relating to Employees' Retirement System Benefit Enhancement Moratorium.

Dear Chairperson Rhoads and Committee Members:

On behalf of the University of Hawaii Professional Assembly (UHPA), our union is opposed to HB 1035. This proposal seeks to prohibit early retirement incentives or other enhancements as a means to address funding issues of the Employees' Retirement System (ERS). Such a prohibition is advanced without the proper assessment of impact and the employment needs for public employers.

HB 1035 represents one of many attempts to change the ERS under the guise of addressing future liabilities. UHPA is concerned that these proposals approach policy issues of the ERS in a piecemeal and fragmented manner without appropriate information as to the impact and consequences to current and future public employees, employers, and the State. UHPA encourages the Committee to support the conveying of a study group that will fully assess and debate what, if any, changes are needed to the ERS to sustain its purpose.

Respectfully submitted,

Kristeen Hanselman
Associate Executive Director

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DIRECTOR

February 11, 2011

The Honorable Karl Rhoads, Chair
and Members of the Committee on Labor
and Public Employment
The House of Representatives
State Capitol
Honolulu, Hawaii 96813

Dear Chair Rhoads and Members:

Subject: House Bill No. 1035
Relating to the Employees' Retirement System
Benefit Enhancement Moratorium

The City and County of Honolulu (City) is well aware of the serious challenges the Retirement System is facing and recognizes the need for significant course corrections. The City views House Bills 1035 as part of a package of bills proposing changes aimed at addressing the Retirement System's unfunded liability. The City does not support **these bills unless they are part of a package designed to address the unfunded liability issue in a comprehensive manner**—with reasonable changes to benefits as well as increases in the Employer contribution rate.

The increases in the Employer contribution provided in other bills this Committee has acted upon will have a severe negative impact on our budget going forward. However, this is balanced by the provisions included in this bill, which will provide a moratorium on benefit enhancements, and others already heard that update the benefits structure making it more realistic and sustainable. This comprehensive approach will, we hope, ultimately result in a system that is more stable and Employer costs that are more predictable.

The Honorable Karl Rhoads, Chair
and Members of the Committee on Labor
and Public Employment
February 11, 2011
Page 2

We realize this Committee is facing very difficult decisions on many matters, including this one. We urge the Committee to take the comprehensive approach needed to set the Retirement System on a sustainable path.

Thank you for the opportunity to testify on these measures.

Yours truly,



Michael R. Hansen, Director
Department of Budget & Fiscal Services



Noel T. Ono, Director
Department of Human Resources