

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1038, H.D. 1

February 25, 2011

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

House Bill No. 1038, H.D. 1, provides for retirement benefits for State and county employees who become members of the Employees' Retirement System of the State of Hawaii after June 30, 2012, that are different from the retirement benefits of current employees.

The Department of Budget and Finance supports this Administration bill which will help to control increases in the cost of employee benefits for State and county employers by changing retirement benefits to employees who become members of the Employees' Retirement System after June 30, 2012.

Although this measure will differentiate benefits within the Employees' Retirement System between employees based on their hire date, the Administration recognizes that such action is necessary to ensure the long-term viability of the Employees' Retirement System.

TESTIMONY BY WESLEY K. MACHIDA
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1038, H.D. 1

FEBRUARY 25, 2011

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Oshiro and Members of the Committee:

H.B. 1038, H.D. 1 provides for retirement benefit changes for State and County employees who become members of the Employees' Retirement System of the State of Hawaii (ERS) after June 30, 2012. The ERS Board of Trustees strongly supports this bill.

The ERS Board would accept a contribution only solution to the current ERS financing issues. However, because the increases in employer contributions necessary to amortize the ERS's unfunded actuarial accrued liability (UAAL) within a 30-year period may not be feasible at this time, the ERS Board of Trustees has been working with its Actuary to design a benefit structure for new employees that reduces the long-term costs of the ERS, and also provides a reasonable retirement package to State and county employees when combined with other retirement vehicles such as Social Security. This bill is the result of those efforts.

This measure seeks to reduce future liability by making changes for future State and County employees, which will provide for reasonable changes to employer contribution rates while State and county employers face challenging budgets. Changes are being proposed for all employee groups to reduce the benefit multiplier, post retirement increase, and Hybrid Plan account; increase the vesting period, average final compensation (AFC) period, and employee contribution rate. The estimated dollar impact of these changes on the fiscal year 2013 contributions is as follows:

All Other Employees:

Area	Change	Estimated Dollar Impact to Contributions
Benefit Multiplier	2% to 1.75%	\$17.3 million
Post Retirement	2.5% to 1.5%	\$12.8 million
Hybrid Plan Account Multiplier	150% to 120%	\$4.4 million
Average Final Compensation Period	3 years to 5 years	\$7.1 million
Vesting Period	5 years to 10 years	\$4.8 million
Employee Contribution Rate	6% to 8%	\$36.1 million

Police & Fire:

Area	Change	Estimated Dollar Impact to Contributions
Benefit Multiplier	2.5% to 2.25%	\$2.2 million
Post Retirement	2.5% to 1.5%	\$2.3 million
Average Final Compensation Period	3 years to 5 years	\$1.4 million
Vesting Period	5 years to 10 years	\$.1 million
Employee Contribution Rate	12.2% to 14.2%	\$3.6 million

All of these changes will result in cost savings, which will help to prevent further increases to the employer contribution requirements that would otherwise be necessary to amortize the ERS's UAAL within a 30-year period. The following cost savings (or reduced contribution savings) estimated by the ERS Actuary for the next 5 fiscal years are anticipated if all of the benefit changes for new hires are implemented:

FY 2012: \$54 million
 FY 2013: \$92 million
 FY 2014: \$95 million
 FY 2015: \$98 million
 FY 2016: \$101 million

The passage of this bill, along with H.B. 1142 will result in employer contribution rates stabilizing over the next several years as follows:

All Other Employees (current rate at 15% of payroll; 6% for normal cost and 9% for unfunded liability):

FY 2012: 15%
FY 2013: 15.5%
FY 2014: 16%
FY 2015: 16.5%
FY 2016: 17%
FY 2017: 17%

Police and Fire (current rate at 19.7% of payroll; 6% for normal cost and 13.7% for unfunded liability):

FY 2012: 19.7%
FY 2013: 22%
FY 2014: 23%
FY 2015: 24%
FY 2016: 25%
FY 2017: 25%

Without the passing of H.B.1038, H.D. 1 and H.B. 1142, the employer contribution rates would require immediate increases in FY2012 from 15% to 17% for all other employees and from 19.7% to 23% for Police & Fire to meet the 30-year amortization period for paying down the UAAL. These rates would be expected to increase to 19% for all other employees and 27% for Police and Fire over the next several fiscal years as the remaining investment losses from fiscal year 2009 are recognized.

As a result, the ERS Board of Trustees strongly supports the passage of H.B. 1038, H.D. 1. Thank you for the opportunity to testify on this important measure.

FINTestimony

From: Joel Fischer [jfisher@hawaii.edu]
ent: Wednesday, February 23, 2011 12:24 PM
To: FINTestimony
Subject: HB1038; FIN; 2/25/11; 10AM, Rm 308

Importance: High

HB1038, HD1; Relating to Employer Contributions
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

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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