

TESTIMONY BY WESLEY K. MACHIDA
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1143

FEBRUARY 25, 2011

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Oshiro and Members of the Committee:

H.B. 1143 reduces the investment return rate assumption from 8% to 7.75% and authorizes the ERS Board of Trustees to set the investment return rate assumption after June 30, 2011, based on the recommendations of the actuary. The ERS Board of Trustees supports this bill as it seeks to set a realistic investment return rate assumption.

The ERS Board of Trustees has the fiduciary responsibility of adopting actuarial assumptions that impact the funding of the ERS. The ERS Board of Trustees has the statutory authority to adopt all of the actuarial assumptions except for the investment return rate. The investment return rate is currently set by Hawaii state statute at 8%. The ERS exceeded the assumed 8% investment return rate for five of the past ten years; however, it fell below the 8% return rate for the other five years, resulting in an average return rate of approximately 3% for the past ten years. Although the past ten years may not be a reliable indicator for the future, several ERS investment managers have indicated that it will be extremely difficult to achieve an 8% average investment return rate over the next ten years. Many public pension plans have decreased or are contemplating a reduction to their investment return rate to 7.75% or even 7.5%. Based on analysis and the recommendations of the ERS Actuary and Investment Consultant, the ERS Board of Trustees approved a decrease in the investment return rate assumption from 8% to 7.75%.

The ERS Board of Trustees should be allowed to establish the investment return rate based on recommendations by its Actuary and Investment Consultant. The investment return rate assumption is used to determine the funding level of ERS and contribution rates for employers. If the investment return rate assumption is not realistic, the funding level of the ERS could

either be understated or overstated, and employer contribution rates may not be set at levels appropriate to meet the long-term costs of the ERS. If the investment return rate assumption is set by statute, then the Board may be required to assume additional risk to meet this rate. The additional risk could result in achieving the statutory rate; however additional risk could also result in severe underperformance during difficult economic times, thereby further increasing the ERS's unfunded actuarial accrued liability, which is currently reported at \$7.1 billion.

The ERS Board of Trustees therefore supports the passage of this bill. Thank you for the opportunity to testify on this important measure.

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Friday, February 25, 2011 7:25 AM
To: FINTestimony
Cc: swartzg001@hawaii.rr.com
Subject: Testimony for HB1143 on 2/25/2011 1:30:00 PM

Testimony for FIN 2/25/2011 1:30:00 PM HB1143

Conference room: 308
Testifier position: oppose
Testifier will be present: No
Submitted by: gregory swartz
Organization: Individual
Address:
Phone:
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Submitted on: 2/25/2011

Comments:

I am opposed to this bill to the extent that the Legislature is setting a 7 3/4% estimate as to earning for the fiscal year ending June 30, 2011. This estimate is too high given the unpredictability of the current market and will result in further shortchanging on the State's and counties' legally mandated contributions to the funds. Other states have fully funded their government employee pensions such as Wisconsin. The State and counties must act responsibly.