

**SB 1262**

**Testimony**

TESTIMONY BY WESLEY K. MACHIDA  
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR  
ON  
SENATE BILL NO. 1262

FEBRUARY 11, 2011

RELATING TO EMPLOYEES' RETIREMENT SYSTEM  
BENEFIT ENHANCEMENT MORATORIUM

Chair Hee and Members of the Committee:

The Employees' Retirement System of the State of Hawaii's (ERS) Board of Trustees strongly supports S.B. 1262 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

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 S.B. 1262. Thank you for the opportunity to testify on this important measure.

SENATE COMMITTEE ON JUDICIARY AND LABOR  
Senator Clayton Hee, Chair  
Senator Maile Shimabukuro, Vice Chair

DATE: Friday, February 11, 2011  
TIME: 9:15 a.m.  
PLACE: Conference Room 016  
State Capitol  
415 Beretania Street

RE: Testimony in Opposition to SB1262

Senator Hee and members of the Committee on Judiciary and Labor, the Hawaii State Teachers Association – Retired, consisting of more than 4,900 retired members statewide, opposes the passage of SB1262.

HSTA-R supports in principle the bill's attempt to deal with the problem of the Employees' Retirement System's unfunded liability. However, we believe that a moratorium unnecessarily binds the ability of future legislatures to consider meritorious proposals. Those legislatures can always decide not approve any proposal for any reason. This legislation is not needed to accomplish that.

Please oppose SB 1262.

Justin Wong, President  
Hawaii State Teachers Association - Retired