

LATE 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. 1264

FEBRUARY 11, 2011

RELATING TO EMPLOYER CONTRIBUTIONS TO
THE EMPLOYEES' RETIREMENT SYSTEM

Chair Hee and Members of the Committee:

S.B. 1264 provides for the setting of the employer contribution rates over the next several years from FY 2012 through FY 2016. The ERS Board of Trustees strongly supports this bill as it seeks to provide for stabilization and reasonable increases during these challenging economic times. The current employer contribution rates are 19.7% of payroll for Police & Fire and 15% of payroll for all other employees. This bill provides for no changes to these rates in FY 2012, and provides for moderate increases up to 25% of payroll for Police & Fire in FY 2016 and 17% of payroll for all other employees in FY 2016.

The ERS has an unfunded actuarial accrued unfunded liability (UAAL) of \$7.1 billion as of June 30, 2010 and a funded ratio of 61.4%. This means that the ERS has a significant funding shortfall that must be made up with either increasing employer and/or employee contributions and investment earnings or decreasing benefits (or a combination of all three). This bill provides for moderate increases over the next several years to the employer contribution rates and is based on benefit changes that are being proposed for new hires after June 30, 2012 in S.B. 1341. Without the passing of S.B.1341 and S.B. 1264, the employer contribution rates would require immediate increases in FY 2012 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.

As a result, the ERS Board strongly recommends the passage of S.B. 1264 along with S.B. 1341. Thank you for the opportunity to testify on this important bill.

LATE TESTIMONY

TESTIMONY BY KALBERT K. YOUNG
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR
ON
SENATE BILL NO. 1264

February 11, 2011

RELATING TO EMPLOYER CONTRIBUTIONS TO THE EMPLOYEES'
RETIREMENT SYSTEM

Senate Bill No. 1264 sets the rates for employer contributions to the Employees' Retirement System beginning with fiscal year 2012-2013.

The Department of Budget and Finance supports this Administration bill which will phase in increases to the employer contribution rates for firefighters, police officers, and corrections officers (FPOCO), and all other (Others) employees to the Employees' Retirement System beginning in fiscal year 2012-2013 through fiscal year 2015-2016. A breakdown of the phase in is as follows:

	<u>FY 12</u>	<u>FY 13</u>	<u>FY 14</u>	<u>FY 15</u>	<u>FY 16</u>
FPOCO	19.7%	22.0%	23.0%	24.0%	25.0%
Others	15.0%	15.5%	16.0%	16.5%	17.0%

While this measure increases the percentage rates contributed by employers to the Employees' Retirement System, the Administration recognizes that such action is necessary to ensure the long-term viability of the Employees' Retirement System. Furthermore, taken in conjunction with other measures to address the long-term liability of the Employees' Retirement System, there could be net cost savings overall.

LATE TESTIMONY

DEPARTMENT OF BUDGET & FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
530 SOUTH KING STREET 2ND FLOOR • HONOLULU, HAWAII 96813
TELEPHONE: (808) 768-3900 • FAX: (808) 768-3179 • INTERNET: www.honolulu.gov/hr

PETER B. CARLISLE
MAYOR



MICHAEL R. HANSEN
DIRECTOR

February 11, 2011

The Honorable Clayton Hee, Chair
and Members of the Committee on Judiciary and Labor
The Senate
State Capitol
Honolulu, Hawaii 96813

Dear Chair Hee and Members:

Subject: Senate Bill Nos. 1262, 1264, 1265, 1216, and 1341
Relating to Employees' Retirement System

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 Senate Bills 1262, 1264, 1265, 1216, and 1341 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 and a moratorium on benefit enhancements, as well as increases in the Employer contribution rate.

The increases in the Employer contribution provided in Senate Bill 1264 will have a severe negative impact on our budget going forward. Senate Bill 1216 may also negatively affect our budget. However, this is balanced by the provisions included in SB 1262, SB 1265, and SB 1341 that place a moratorium on benefit enhancements and 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 Clayton Hee, Chair
and Members of the Committee on Judiciary and Labor
The Senate
February 11, 2011
Page 2

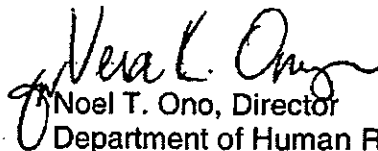
We realize this Committee is facing very difficult decisions on many matters, including this one. We urge the Committee to take the comprehensive approach needed to set the Retirement System on a sustainable path.

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