

TESTIMONY BY WESLEY K. MACHIDA
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 1269, S.D. 2, H.D. 1

MARCH 31, 2011

RELATING TO THE DEFINITION OF COMPENSATION FOR PURPOSES
OF THE EMPLOYEES' RETIREMENT SYSTEM

Chair Oshiro and Members of the Committee:

S.B. 1269, S.D. 2, H.D. 1 amends the definition of "compensation" for eligible service beginning on July 1, 2011 for the purpose of calculating retirement benefits. The ERS Board of Trustees has not had an opportunity to review the changes made to this bill through House Draft 1, and accordingly, does not have a position on this change. These changes, for services provided after June 30, 2011, appear to reinstate the overtime required by the employer, shortage differentials, elective salary reduction contributions, and 12-month differentials for employees of the Department of Education. Still excluded from the definition of compensation are bonuses and lump sum salary supplements, overtime not required by the employer, and differentials other than by reason of employee shortages.

The ERS is not currently provided with information on the bonuses and lump sum salary supplements, overtime not required by the employer, and differentials other than shortage differentials, and therefore, we are not able to determine the estimated savings from this change. However based on discussions with certain employers, this bill is not anticipated to generate significant savings or a significant positive impact on the unfunded actuarial accrued liability as most overtime is approved by the employer.

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

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 1269, S.D. 2, H.D. 1

March 31, 2011

RELATING TO THE DEFINITION OF COMPENSATION FOR PURPOSES OF THE
EMPLOYEES' RETIREMENT SYSTEM

Senate Bill No. 1269, S.D. 2, H.D. 1, establishes provisions for compensation to an employee or officer for Employees' Retirement System service after June 30, 2011.

The Department of Budget and Finance supports the concept of this measure; however, we strongly recommend that the original language of Senate Bill No. 1269 (see attachment), which would exclude overtime, bonuses, lump sum salary supplements, and differentials for the purpose of calculating retirement benefits from July 1, 2011, be reinserted in defining compensation. If the original language of Senate Bill No. 1269 is not reinserted in defining compensation, we recommend that the following language be deleted from page 2, lines 9 and 10, item (b) (1), "and additional payments for any time worked that is required by the employer."

As provided in previous testimony, changing the definition of compensation to only include base pay, to be effective July 1, 2011, is estimated to save the State approximately \$13.2 million in Fiscal Year 2012 and save the counties approximately \$19.0 million. In addition, the Employees' Retirement System's unfunded liability is estimated to be reduced by at least \$500 million.

Thus, Senate Bill No. 1269, as originally proposed, will produce a near-term benefit of reducing the public employers' annual contributions, and a long-term benefit of reducing the unfunded liability, thereby improving the long-term viability of the Employees' Retirement System.

Attachment

JAN 26 2011

A BILL FOR AN ACT

RELATING TO THE DEFINITION OF COMPENSATION FOR PURPOSES OF THE
EMPLOYEES' RETIREMENT SYSTEM.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. Section 88-21.5, Hawaii Revised Statutes, is
2 amended to read as follows:
3 "~~§88-21.5~~ **Employee contributions.** [~~Unless~~] (a) For
4 service before July 1, 2011, unless a different meaning is
5 plainly required by context, as used in this part,
6 "compensation" means normal periodic payments of money for
7 service the right to which accrues on a regular basis in
8 proportion to the service performed; overtime, differentials,
9 and supplementary payments; bonuses and lump sum salary
10 supplements; and elective salary reduction contributions under
11 sections 125, 403(b), and 457(b) of the Internal Revenue Code of
12 1986, as amended. Bonuses and lump sum salary supplements shall
13 be deemed earned when payable; provided that bonuses or lump sum
14 salary supplements in excess of one-twelfth of compensation for
15 the twelve months prior to the month in which the bonus or lump
16 sum salary supplement is payable, exclusive of overtime,
17 bonuses, and lump sum salary supplements, shall be deemed
18 earned:

S.B. NO. 1269

1 (1) During the period agreed-upon by the employer and
2 employee, but in any event over a period of not less
3 than twelve months; or

4 (2) In the absence of an agreement between the employer
5 and the employee, over the twelve months prior to the
6 date on which the bonus or lump sum salary supplement
7 is payable.

8 (b) For service after June 30, 2011, unless a different
9 meaning is plainly required by context, as used in this part,
10 "compensation" means normal periodic payments of money for
11 services performed, the right to which accrues on an hourly,
12 daily, monthly, or annual basis; shortage differentials; and
13 elective salary reduction contributions under sections 125,
14 403(b), and 457(b) of the Internal Revenue Code of 1986, as
15 amended. "Compensation" does not include any other additional
16 or extra payments to an employee or officer, including, but not
17 limited to, overtime, bonuses, lump sum salary supplements,
18 allowances, or differentials, including, but not limited to,
19 differentials for stand-by duty, temporary unusual work hazards,
20 compression differentials, or temporary differentials."

21 SECTION 2. Statutory material to be repealed is bracketed
22 and stricken. New statutory material is underscored.

23 SECTION 3. This Act shall take effect on July 1, 2011;
24 provided that with respect to individuals who became members of

S.B. NO. 1269

1 the employees' retirement system of the State of Hawaii before
2 July 1, 2011, the member's benefits accrued up to June 30, 2011,
3 shall not be diminished or impaired.

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INTRODUCED BY:

ASTH

BY REQUEST

SB. NO. 1269

Report Title:

Employees' Retirement System; Calculation of Retirement Benefits

Description:

Amends the definition of "compensation" for the purpose of calculating retirement benefits.



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**TESTIMONY BEFORE THE SENATE COMMITTEE ON
FINANCE**

**RE: SB 1269, SD2, HD1 -- RELATING TO THE DEFINITION OF
COMPENSATION FOR PURPOSES OF THE EMPLOYEES' RETIREMENT
SYSTEM.**

THURSDAY, MARCH 31, 2011

**WIL OKABE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION**

Chair Oshiro and Members of the Committee:

The Hawaii State Teachers Association supports SB 1269, SD2, HD1, as amended, which establishes provisions for compensations to employees for the ERS service.

HSTA believes that members' accrued benefits should not be diminished or impaired. We further believe employees compensated for services performed shall be deemed earned and should be included in their retirement calculations towards their pension.

Therefore, HSTA supports SB 1269, SD2, HD1, as amended.

Thank you for the opportunity to testify.

The Twenty-Sixth Legislature, State of Hawaii
House of Representatives
Committee on Finance

March 25, 2011

[SB 1269] – RELATING TO THE DEFINITION OF COMPENSATION FOR
PURPOSES OF THE EMPLOYEES' RETIREMENT SYSTEM

Chair Marcus Oshiro, Vice-Chair Marilyn Lee, and members of the Committee on Finance.

Thank you for the opportunity to share my thoughts in opposition of SB 1269., which changes the way our retirement benefits are calculated.

I have been following the progression of this bill through the various steps, doing my best to understand both sides of this issue, and the language of the bill. Although I know that the ERS is underfunded and in trouble, this was partly due to the fact that monies in the fund were used by the legislature to "balance" other areas of our state government for many decades. But now, if these changes become effective, it now becomes the employee's responsibility to help correct the problems.

I am a member of the "old" retirement system that requires me to contribute 7.8% of my earned income, ALL of my income, which includes night differential, charge differential, and any overtime I was required to perform in order to do my job.

I have worked now for close to 3 decades as a staff RN at MMMC, most of which were on the night shift. A shift that pays a small differential to compensate for the difficult strain working all night long day after day, year after year creates. A job that requires you to work not only throughout the night, but on holidays, and overtime to care for the people's health when there was no one else to provide this vital service.

What a slap in the face to say these parts of my pay are now in jeopardy of not being counted to compute what I will receive when I retire.

Please consider some different ways to make the system more stable. Can the percentage contributed be raised? Why is it that members of the "old" retirement system contribute 7.8% but the hybrid member just 6%. I would even consider contributing up to 10% of my total income. To change the way the computation is figured for the membership who especially are too close to retirement to make adequate arrangements to cover the change is too much to bear.

Thank you for the opportunity to provide my thoughts in opposition of SB 1269.

Respectfully submitted,

Ellen Prais