

TESTIMONY BY WESLEY K. MACHIDA
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR
ON
SENATE BILL NO. 649

FEBRUARY 11, 2011

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Hee and Members of the Committee:

The Legislative Committee of the Board of Trustees of the Employees' Retirement System (ERS) opposes S.B. 649. S.B. 649 provides for annual bonus payments to ERS retirees who are at least 75 years of age and have been retired for at least 20 years on June 30, 2011. The bonus payment may add additional cost to the ERS and further increase the ERS's growing unfunded actuarial accrued liability (UAAL).

S.B. 649 establishes a closed group to receive these ongoing bonus payments. While this limits the amount of liability associated with the bill it seems patently unfair to reward that group of retirees with a bonus payment when the next year there would a whole new group of retirees who meet the age 75 and 20 years of retirement who would not be entitled to a bonus payment.

Although the bill provides for general fund appropriations for FY2012 and FY2013, it is unclear as to source of funding beyond FY2013. Without a general fund appropriation, the ERS would have to fund these payments. Furthermore, although the bill appears to allow for the bonus retroactive to FY 2010 and FY 2011, and is also unclear as to whether general fund appropriations will be provided for these payments. It is also unclear whether the State will fund the entire bonus or whether and how the counties' will contribute to these payments. The estimated annual cost for the bonus would be approximately \$2.5 million (\$2 million for the State retirees; \$500,000 for county retirees).

The ERS's UAAL is \$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.

Based on the \$7.1 billion UAAL, 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.

While the ERS sympathizes with the needs of the retirees and the difficulties they face during these challenging economic times, it is important that the ERS improve its funded status to ensure that promised benefits are paid to all of its members and retirees.

As a result, the Legislative Committee of the ERS Board opposes this bill. Thank you for the opportunity to testify on this bill.

SENATE COMMITTEE ON JUDICIARY AND LABOR**Date: Friday, February 11, 2011****Time: 9:15 a.m.****Place: Conference Room 016****S.B. 649: Relating to the Employees' Retirement System**

Chairman Clayton Hee and members of the Judiciary and Labor Committee, my name is Odetta Fujimori. I am a beneficiary of the Employees' Retirement System and a former trustee of ERS. I am seeking your support for S.B. 649 which will provide a lump sum payment for retirees at least seventy-five years of age or older. Many of these retirees were the contributory members of the system that helped to keep ERS funded above the 80% level. Unfortunately, instead of providing dividends to those contributory members, the state required the ERS' excess earnings to be placed into the general fund. Today, these retirees with more than twenty years of service deserve an adjustment in their retirement allowance and the funding should come from the very "pot" (general fund) where their "dividends" were diverted.

Please support S.B. 649.

Thank you.