

Honolulu, Hawaii

Feb 17, 2012

RE: H.B. No. 1811
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Sixth State Legislature
Regular Session of 2012
State of Hawaii

Sir:

Your Committee on Labor & Public Employment, to which was referred H.B. No. 1811 entitled:

"A BILL FOR AN ACT RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM, "

begs leave to report as follows:

The purpose of this measure is to strengthen the integrity and sustainability of the Employees' Retirement System by helping to address the pension's growing financial liabilities. Specifically, this measure:

- (1) Requires employers to pay greater Employees' Retirement System contribution rates on their employees' non-base compensation than on their "base" compensation;
- (2) Establishes definitions for "base compensation", "compensation", and "non-base compensation"; and
- (3) Establishes various employer contribution rates for the Employees' Retirement System for different classifications of employees.

The Department of Budget and Finance, Board of Trustees of the Employees' Retirement System, and Finance Department of the County of Hawaii testified in support of the intent of this measure. The Department of Budget and Fiscal Services of the City and County of Honolulu testified in opposition to this measure.



The Employees' Retirement System of the State of Hawaii was established in 1926 to provide retirement allowances and other benefits to State and county government employees. Currently, the Employees' Retirement System has an unfunded actuarial accrued liability of \$8.1 billion.

While contributions from both employers and employees help to partially fund the Employees' Retirement System, the practice of increasing an employee's average final compensation, upon which their retirement allowances are computed, by working more overtime has negatively impacted the Employees' Retirement System because the resultant retirement allowances that are enhanced by overtime pay do not actuarially reflect the contributions made by, and for, the employees during their careers. At present, when employees' retirement allowances are actuarially greater than their accumulated contributions, the excess allowance portion must be paid from the earnings of the Employees' Retirement System.

While your Committee notes that the Employees' Retirement System stated that the problem of enhancing retirement allowances by working increased hours of overtime in an employee's final years of service results in less than a one percent increase on the unfunded liability of the Employees' Retirement System, it is a problem nonetheless. Your Committee finds that the onus for controlling this problem rests with the employer. By placing the burden for paying the portion of an employee's retirement allowance attributed to non-base compensation squarely on the shoulders of the employer rather than on the Employees' Retirement System, your Committee hopes to address this issue.

Your Committee has amended this measure by:

- (1) Specifying that deferred compensation deductions not be considered as a form of payment under the definition of "non-base compensation" when determining an employer's contribution rates to the Employees' Retirement System;
- (2) Stipulating that the increases in employer contributory rates shall only be applicable when a new collective bargaining agreement is negotiated and not for collective bargaining agreements already agreed upon and established; and
- (3) Making technical, nonsubstantive amendments for clarity, consistency, and style.



As affirmed by the record of votes of the members of your Committee on Labor & Public Employment that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1811, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1811, H.D. 1, and be referred to the Committee on Finance.

Respectfully submitted on
behalf of the members of the
Committee on Labor & Public
Employment,



KARL RHOADS, Chair



State of Hawaii
House of Representatives
The Twenty-sixth Legislature

HSCR552-12

Record of Votes of the Committee on Labor & Public Employment

Bill/Resolution No.: HB 1811	Committee Referral: LAB FIN	Date: 2-14-12		
<input type="checkbox"/> The committee is reconsidering its previous decision on the measure.				
The recommendation is to: <input type="checkbox"/> Pass, unamended (as is) <input checked="" type="checkbox"/> Pass, with amendments (HD) <input type="checkbox"/> Hold <input type="checkbox"/> Pass short form bill with HD to recommit for future public hearing (recommit)				
LAB Members	Ayes	Ayes (WR)	Nays	Excused
1. RHOADS, Karl (C)	/			
2. YAMASHITA, Kyle T. (VC)	/			
3. AQUINO, Henry J.C.	/			
4. CULLEN, Ty	/			
5. ICHIYAMA, Linda	/			
6. LEE, Marilyn B.				/
7. LUKE, Sylvia	/			
8. OKAMURA, Tom				
9. SAIKI, Scott K.	/			
10. SOUKI, Joseph M.	/			
11. TAKUMI, Roy M.				/
12. FONTAINE, George R.	/			
13. JOHANSON, Aaron Ling	/			
TOTAL (13)	10	-	-	2
The recommendation is: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted If joint referral, _____ did not support recommendation. <small style="margin-left: 100px;">committee acronym(s)</small>				
Vice Chair's or designee's signature:				
Distribution: Original (White) – Committee Duplicate (Yellow) – Chief Clerk's Office Duplicate (Pink) – HMSO				