

STAND. COM. REP. NO. 3286

Honolulu, Hawaii

APR 05 2012

RE: H.B. No. 2487
H.D. 1
S.D. 2

Honorable Shan S. Tsutsui
President of the Senate
Twenty-Sixth State Legislature
Regular Session of 2012
State of Hawaii

Sir:

Your Committee on Ways and Means, to which was referred H.B. No. 2487, H.D. 1, S.D. 1, entitled:

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

begs leave to report as follows:

The purpose and intent of this measure is to clarify and adjust pension benefit calculations of the Employees' Retirement System.

More specifically, the measure:

- (1) Harmonizes ordinary disability and ordinary death benefits for new members of the Employees' Retirement System with their service retirement benefits by:
 - (A) Deleting water safety officers from the list of individuals who join the Employees' Retirement System as contributory members after June 30, 2012, because officers becoming members after June 30, 2012, are hybrid plan members;
 - (B) Applying the same benefit multiplier for service retirement benefits and ordinary disability benefits for hybrid plan members who become members of the Employees' Retirement System after June 30, 2012; and



- (C) Making the service requirement for payment of the hybrid plan hypothetical account balance as an ordinary death benefit for an individual who becomes a member after June 30, 2012, the same as the service requirement for an inter vivos withdrawal by the member after the member has terminated service;
- (2) Makes consistent through all types of credited service, the years of credited service component utilized in the average final compensation formula for members with credited service as an elected or legislative officer who are hired after June 30, 2012; and
- (3) Prevents unexpected increases in pension benefits and in the unfunded actuarial accrued liability of the Employees' Retirement System by:
 - (A) Limiting the amount of compensation included in "average final compensation"; and
 - (B) Requiring employers to pay the additional costs resulting from spiking.

Written comments in support of this measure were submitted by the Department of Budget and Finance and the Employees' Retirement System. Written comments in opposition to this measure were submitted by the City and County of Honolulu-Police Department, the County of Maui-Fire Department, and the United Public Workers. Written comments on this measure were submitted by the City and County of Honolulu-Emergency Services Department and the City and County of Honolulu.

Your Committee finds that Act 163, Session Laws of Hawaii 2011, enacted more stringent age and service requirements for retirement by members of the Employees' Retirement System who become members of the System after June 30, 2012. Your Committee also finds that this measure makes several amendments to the pension and retirement laws to clarify benefit changes made under Act 163 and harmonize the service requirements and ordinary death benefits for individuals who become members of the Employees' Retirement System after June 30, 2012.



Your Committee finds that, as of June 30, 2011, the Employees' Retirement System's unfunded liability was reported at \$8,164,000,000. Your Committee also finds that several factors have contributed to the System's unfunded liability, including pension spiking. Pension spiking is a process whereby a public sector employee significantly increases the employee's compensation, through overtime or other similar opportunities, in the years immediately preceding retirement so that the resultant pension is abnormally inflated in comparison to the pension that the employee would otherwise receive without the late career overtime compensation. If an employee's pay increases in an abnormal manner in the final years of employment, the employee's retirement benefits, which are based on the employee's three or five highest paid years, can be increased dramatically without providing the Employees' Retirement System with sufficient investment time or moneys to fund the increased pension. In turn, this spike in compensation increases the unfunded actuarial accrued liability of the Employees' Retirement System.

Your Committee recognizes that pension spiking is only one of several factors contributing to the Employees' Retirement System's current unfunded liability, but finds that this measure is a necessary step in addressing the unfunded liability. Your Committee notes that public sector employees who believe that any spike in their pension is due to assignments by management may file an appeal pursuant to title 6, chapter 23, Hawaii Administrative Rules, relating to contested case hearings for the Employees' Retirement System.

Your Committee has amended this measure by:

- (1) Combining two sections of the measure that amend the same section of the Hawaii Revised Statutes; and
- (2) Making technical nonsubstantive amendments for the purposes of consistency, clarity, and style.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2487, H.D. 1, S.D. 1, as amended herein, and recommends that it pass Third Reading in the form attached hereto as H.B. No. 2487, H.D. 1, S.D. 2.



Respectfully submitted on
behalf of the members of the
Committee on Ways and Means,

David Y. Ige

DAVID Y. IGE, Chair



The Senate
Twenty-Sixth Legislature
State of Hawai'i

Record of Votes
Committee on Ways and Means
WAM

Bill / Resolution No.:*	Committee Referral:	Date:		
HB2487 HDISDI	JDL, WAM	3-29-12		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is:				
<input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
IGE, David Y. (C)	/			
KIDANI, Michelle N. (VC)	/			
CHUN OAKLAND, Suzanne			/	
DELA CRUZ, Donovan M.	/			
ENGLISH, J. Kalani	/			
ESPERO, Will	/			
FUKUNAGA, Carol	/			
KIM, Donna Mercado	/			
KAHELE, Gilbert	/			
KOUCHI, Ronald D.				/
RYAN, Pohai			/	
TOKUDA, Jill N.	/			
WAKAI, Glenn	/			
SLOM, Sam	/			
TOTAL	11	0	2	1
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: <i>Michelle N. Kidani</i>				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes