

STAND. COM. REP. NO

419

Honolulu, Hawaii

FEB 18 2011

RE: S.B. No. 1269
S.D. 1

Honorable Shan S. Tsutsui
President of the Senate
Twenty-Sixth State Legislature
Regular Session of 2011
State of Hawaii

Sir:

Your Committee on Judiciary and Labor, to which was referred
S.B. No. 1269 entitled:

"A BILL FOR AN ACT RELATING TO THE DEFINITION OF COMPENSATION
FOR PURPOSES OF THE EMPLOYEES' RETIREMENT SYSTEM,"

begs leave to report as follows:

The purpose and intent of this measure is to address the
unfunded liability of the Employees' Retirement System (ERS) by
amending the definition of "compensation" for the purpose of
calculating retirement benefits by excluding overtime, bonuses,
lump sum salary supplements, and differentials.

Your Committee received testimony in support of this measure
from the Governor, the Department of Budget and Finance, and the
Department of Budget and Fiscal Services of the City and County of
Honolulu. Your Committee received testimony in opposition to this
measure from the State Fire Council and the Honolulu Fire
Department; the Police Department of the City and County of
Honolulu; United Public Workers; the Hawaii Fire Fighters
Association; the State of Hawaii Organization of Police Officers;
and one individual. Your Committee received comments on this
measure from the Administrator of the Employees' Retirement
System.

Your Committee finds that the current unfunded liability of
the ERS is estimated to be approximately \$9,000,000,000, resulting
in concerns about the ERS's financial stability over the long-term
and the ability of the State to pay for government worker

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retirement benefits earned to date. This measure, together with other similar measures being heard by your Committee, are attempts to address this unfunded liability crisis. Given the current financial crisis of the ERS, it is incumbent upon your Committee to seek and consider every avenue available, so that going forward, the ERS can be stabilized and preserved for state and county employees.

Your Committee notes that the ERS Actuary estimates that the definition revision proposed in this measure will save the State approximately \$13,200,000 and the counties approximately \$19,000,000 in fiscal year 2012. Additionally, the ERS's unfunded liability is estimated to be reduced by at least \$500,000,000. This is a substantial step towards the goal of stabilizing the ERS. However, it may come at some cost to those employees who rely on significant overtime when calculating their retirement benefits. This measure will have a particularly large impact on police officers, fire fighters, and public safety officials, among others.

There are additional concerns. The ERS Board of Trustees estimates that there are 15,000 members that are currently eligible to retire who will do so. This would have a detrimental impact on the ERS unfunded liability, because contributions into the ERS would cease and benefits would begin to flow out for those retirees. The potential exodus of contributing employees is problematic.

Your Committee notes that while the Board of Trustees has provided cost information to your Committee, it has not taken a firm position on the proposals in this measure. The Board's position is important, and the Legislature relies on their expertise to inform our decisions on critical issues regarding the impact of various proposals on the health and efficacy of the ERS.

In crafting the amendments to the measure described below, your Committee, with limited information, has attempted to balance the potential gains of addressing a significant portion of the unfunded liability of the ERS with attempts to avoid inadvertently making the situation worse. Your Committee believes that the amendments described below will allow time to observe the effect of the changes in calculating compensation for purposes of retirement benefits and to make adjustments, if necessary.

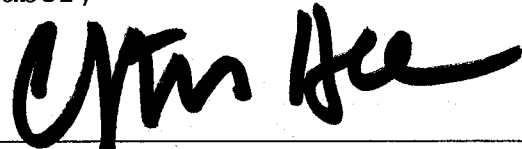
Your Committee has amended this measure by:



- (1) Creating a gradual, stepped-down decrease in the percentage of "additional compensation" that will be used in the calculation of total compensation that determines retirement benefits for those employees who are members as of June 30, 2011, to avoid the mass exodus of members who are currently eligible to retire;
- (2) Retaining the immediate elimination of the inclusion of "additional compensation" in the amount of compensation used to calculate retirement benefits for those employees who become members on or after July 1, 2011;
- (3) Inserting an effective date of July 1, 2050, to allow for further discussion; and
- (4) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Judiciary and Labor that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 1269, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 1269, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Judiciary and
Labor,




CLAYTON HEE, Chair



The Senate
 Twenty-Sixth Legislature
 State of Hawai'i

Record of Votes
Committee on Judiciary and Labor
JDL

Bill / Resolution No.:*	Committee Referral:	Date:		
SB 12 69	JDL, WAM	2/16/11		
<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
HEE, Clayton (C)	✓			
SHIMABUKURO, Maile (VC)	✓			
GABBARD, Mike	✓			
IHARA, Jr., Les	✓			
SLOM, Sam				✓
TOTAL	4	0	0	1
Recommendation:				
<input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
				
Distribution:				
Original File with Committee Report	Yellow Clerk's Office	Pink Drafting Agency	Goldenrod Committee File Copy	

*Only one measure per Record of Votes