

STAND. COM. REP. NO. 2790

Honolulu, Hawaii

MAR 02 2012

RE: S.B. No. 2750  
S.D. 1

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 S.B. No. 2750, 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 address the Employees' Retirement System's unfunded liability by amending the law regarding the calculation of a member's average final compensation, to prevent pension spiking.

More specifically, this measure:

- (1) Requires a public employee's last state or county employer to pay to the Employees' Retirement System the present value of additional benefits resulting from pension spiking; and
- (2) Limits the amount of compensation to be considered in an Employees' Retirement System member's average final compensation benefit calculation, by excluding from the calculation formula, late career compensation spikes that are attributable to non-base pay compensation, including overtime.

Your Committee received written comments in support of this measure from the Department of Budget and Finance; and the Employees Retirement System. Your Committee received written

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comments in opposition to this measure from the City and County of Honolulu Police Department; and one individual. Your Committee received written comments on this measure from the Hawaii State Teachers Association; Honolulu Fire Department; City and County of Honolulu; and one individual.

Your Committee finds that 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 notes that the Employees' Retirement System's unfunded liability was reported at \$8,164,000,000 as of June 30, 2011. Although pension spiking is only one of a number of factors contributing to the System's unfunded liability, it is important to take appropriate measures now to deal with the problem of pension spiking to protect the System and its members.

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 S.B. No. 2750, S.D. 1, and recommends that it pass Third Reading.

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




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:		
SB 2750, SD1	JDL, WAM	2/28/12		
<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 checked="" type="checkbox"/> Pass, unamended 2312	<input 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	✓			
<b>TOTAL</b>	12	0	0	2
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