

DEPARTMENT OF BUDGET & FISCAL SERVICES

CITY AND COUNTY OF HONOLULU

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February 8, 2011

The Honorable Karl Rhoads, Chair
and Members of the Committee on Labor
and Public Employment
The House of Representatives
State Capitol
Honolulu, Hawaii 96813

Dear Chair Rhoads and Members:

Subject: House Bills Nos. 1037, 1038, 1142 and 1143
Relating to Employer Contributions to the Employees'
Retirement System

The City and County of Honolulu (City) is well aware of the serious challenges the Retirement System is facing and recognizes the need for significant course corrections. The City views House Bills 1037, 1038, 1142 and 1143 as part of a package of bills proposing changes aimed at addressing the Retirement System's unfunded liability. The City does not support **these bills unless they are part of a package designed to address the unfunded liability issue in a comprehensive manner**—with reasonable changes to benefits as well as increases in the Employer contribution rates.

The increases in the Employer contribution provided in HB 1037 will have a severe negative impact on our budget going forward. House Bill 1143 may also negatively affect our budget. However, this is balanced by the provisions included in HB 1038 and HB 1142 that update the benefits structure making it more realistic and sustainable. This comprehensive approach will, we hope, ultimately result in a system that is more stable and Employer costs that are more predictable. We note that other bills to reform the System, including, House Bill 1042 and House Bill 589, a Hawaii Council of Mayors bill to separate teachers from other general employees, are not being heard today. We view these bills as an important part of the reform package and we urge the Committee to schedule them for hearing.

The Honorable Karl Rhoads, Chair
and Members of the Committee on Labor
and Public Employment
The House of Representatives
February 8, 2011
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We realize this Committee is facing very difficult decisions on many matters, including this one. We urge the Committee to take the comprehensive approach needed to set the Retirement System on a sustainable path.

Thank you for the opportunity to testify on these measures.

Yours truly,



Michael R. Hansen, Director
Department of Budget & Fiscal Services



Noel T. Ono, Director
Department of Human Resources



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION

AFSCME Local 152, AFL-CIO

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The Twenty-Sixth Legislature, State of Hawaii
Hawaii State House of Representatives
Committee on Labor & Public Employment

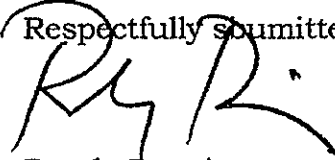
Testimony by
Hawaii Government Employees Association
February 8, 2011

H.B. 1037 - RELATING TO THE
EMPLOYER CONTRIBUTIONS TO THE
EMPLOYEES' RETIREMENT SYSTEM

The Hawaii Government Employees Association Retirees Unit, AFSCME Local 152, AFL-CIO strongly supports H.B. 1037. Our Retirees' Unit consists of 9,500+ members, who would be affected by this measure. The bill seeks to amortize the State Retirement System's accrued unfunded liability over a thirty-year period. The bill also proposes phased-in increases to the government's contribution toward eliminating the unfunded liability.

We support H.B. 1037 because the bill gives specific dates and percentages by which the government will increase its contributions toward the State retirement fund. What H.B. 1037 provides is a clear timetable within which the State retirement fund will be fully funded, rather than a vague promise that the State will somehow fund the retirement system. We believe H.B. 1037, if enacted, will ensure the continuing viability of the State retirement fund, and ensure that the pensions of the government retirees who depend on the fund will be safeguarded.

We appreciate the opportunity to testify in support of H.B. 1037.

Respectfully submitted,

Randy Perreira
Executive Director



TESTIMONY BY KALBERT K. YOUNG
 INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
 STATE OF HAWAII
 TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
 ON
 HOUSE BILL NO. 1037

February 8, 2011

RELATING TO EMPLOYER CONTRIBUTIONS TO THE EMPLOYEES' RETIREMENT SYSTEM

House Bill No. 1037 sets the rates for employer contributions to the Employees' Retirement System beginning with fiscal year 2012-2013.

The Department of Budget and Finance supports the intent of this Administration bill which will phase in increases to the employer contribution rates for firefighters, police officers, and corrections officers (FPOCO), and all other (Others) employees to the Employees' Retirement System beginning in fiscal year 2012-2013 through fiscal year 2015-2016. A breakdown of the phase in is as follows:

	<u>FY 12</u>	<u>FY 13</u>	<u>FY 14</u>	<u>FY 15</u>	<u>FY 16</u>
FPOCO	19.7%	22.0%	23.0%	24.0%	25.0%
Others	15.0%	15.5%	16.0%	16.5%	17.0%

While this measure increases the percentage rates contributed by employers to the Employees' Retirement System, the Administration recognizes that such action is necessary to ensure the long-term viability of the Employees' Retirement System. Furthermore, taken in conjunction with other measures to address the long-term liability of the Employees' Retirement System, there could be net cost savings overall.

LATE

TESTIMONY BY WESLEY K. MACHIDA
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 1037

FEBRUARY 8, 2011

RELATING TO EMPLOYER CONTRIBUTIONS TO
THE EMPLOYEES' RETIREMENT SYSTEM

Chair Rhoads and Members of the Committee:

H.B. 1037 provides for the setting of the employer contribution rates over the next several years from FY 2012 through FY 2016. The ERS Board of Trustees strongly supports this bill as it seeks to provide for stabilization and reasonable increases during these challenging economic times. The current employer contribution rates are 19.7% of payroll for Police & Fire and 15% of payroll for all other employees. This bill provides for no changes to these rates in FY 2012, and provides for moderate increases up to 25% of payroll for Police & Fire in FY 2016 and 17% of payroll for all other employees in FY 2016.

The ERS has an unfunded actuarial accrued unfunded liability (UAAL) of \$7.1 billion as of June 30, 2010 and a funded ratio of 61.4%. This means that the ERS has a significant funding shortfall that must be made up with either increasing employer and/or employee contributions and investment earnings or decreasing benefits (or a combination of all three). This bill provides for moderate increases over the next several years to the employer contribution rates and is based on benefit changes that are being proposed for new hires after June 30, 2012 in H.B. 1038 and H.B. 1142. Without the passing of H.B.1038 and H.B. 1142, the employer contribution rates would require immediate increases in FY 2012 from 15% to 17% for all other employees and from 19.7% to 23% for Police & Fire to meet the 30-year amortization period for paying down the UAAL.

As a result, the ERS Board strongly recommends the passage of H.B. 1037 along with H.B. 1038 and H.B. 1142. Thank you for the opportunity to testify on this important bill.