

ONLY

**TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
HOUSE BILL NO. 1811**

February 14, 2012

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

House Bill No. 1811, proposes to increase the employer's contribution to the Employees' Retirement System (ERS) for non-base pay components of an employees' earnings. The intent of the bill is to address insufficient funding of the ERS when employees' earnings are significantly increased during specific periods of their employment.

The Department of Budget and Finance supports the intent of this bill to find a means and measure to address the unfunded portion of the ERS liability – especially, that portion of the liability that could be attributable to uneven and significant earnings increases during specific periods of an employee's employment (i.e. in the final 5 years prior to retirement). Increasing the employer contribution rate for non-base pay will increase the funding level for the ERS, but this increased funding level may still not be enough to target specific liabilities of any particular employee. For example, non-base pay earned early in an employee's career will have a lesser effect on contributing to an unfunded liability than non-base pay earned at the end of an employee's career. Also, a steady evenly earned rate of non-base pay over the length of a career will have even a lesser effect on an unfunded liability.

The Department would also point out that this bill will require the State to appropriate additional funds to provide for the increased rate. The State does have a significant number of departments, agencies and employees where there is over-time during the fiscal year. Since the

nature of overtime is an operational matter that is difficult to predict with any regularity, we would have to assess an estimate for future overtime in order to compare it to the proposed rate, before we are able to provide an estimate of the additional budget cost. If the committee should decide to move this bill forward, I would recommend that the implementation date be sufficiently in advance so that the State and county employers can plan-fully prepare and budget for this increased expense.

Thank you for the opportunity to provide testimony on this measure.

TESTIMONY BY WESLEY K. MACHIDA
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 1811

FEBRUARY 14, 2012

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Rhoads and Members of the Committee,

The provisions of H.B. 1811 require State and county employers to pay greater contribution rates on their employees' "non-base" compensation than on their "base" compensation. The intent of this proposal is to place the burden on the employers, rather than on the Employees' Retirement System (ERS), to pay for the portion of employees' retirement allowances that are not adequately funded due to spikes in the employees' employees' non-base compensation near retirement.

The ERS Board of Trustees supports the intent of this bill as it would have a positive effect on reducing the ERS' unfunded liability.

Higher employer contribution rates on an employee's non-base pay would reduce the ERS' unfunded liability more quickly than the current contribution rates. However, higher employer contributions on an employee's non-base pay during the employee's employment history may not necessarily address the unexpected increase in benefits for employees who inflate their "average final compensation" by sudden increases in their non-base pay at the end of their careers. These are the primary situations for which the employees' retirement pensions would not have been adequately funded.

The ERS wishes to note that this bill also amends the definition of "compensation" under §88-21.5 and may have unintentionally included deferred compensation deductions under its definition of "non-base compensation." This section will require review and correction.

The ERS Board of Trustees believes that the principal intent of this proposed legislation is to reduce the ERS' unfunded liability, and therefore, supports the passage of this bill.

Thank you for the opportunity to testify on this important measure.

AMENDED

DEPARTMENT OF BUDGET & FISCAL SERVICES
CITY AND COUNTY OF HONOLULU

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PETER B. CARLISLE
MAYOR



MICHAEL R. HANSEN
DIRECTOR

February 14, ~~2011~~ 2012

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

Dear Chair Rhoads and Members:

Subject: House Bill 1811
Relating to the Employees' Retirement System

The City and County supports efforts to address the unfunded liability of the Employees' Retirement system in a fair and equitable manner. However, we have questions regarding the impact of House Bill 1811, and cannot support it at this time.

The City notes that last year we fully supported a measure that will substantially increase our employer contribution to the ERS. This year we are faced with a number of bills that seem to focus on employees who tend to earn more overtime and other non-base payments than other general employees. Not surprisingly, for the City, these are our public safety and health employees—police officers, fire fighters, and emergency medical workers.

The City does understand why there is a focus on these employees, particularly in light of recent reports noting extreme examples of employee overtime earnings. However, given the critical nature of jobs performed by these employees, the City cannot support bills such as these without fully understanding their consequences—as we would not want to support a measure that would adversely affect the operations of agencies that provide these essential services.

We note that this bill directly affects only the employers by charging us for overtime and other non-base pay items. (There may, of course, be indirect effects on employees.) We wonder if charging only the employer the higher rates is due to the belief that management exerts significant control over the overtime and other non-base pay payments. The reality is that management's control of overtime is greatly affected by contractual provisions regarding overtime, assignments, and other payments that are not included in the base. In addition, in first responder agencies it is frequently the events of the day that create the necessity for overtime.

The Honorable Karl Rhoads, Chair
and Members of the Committee on Labor and
Public Employment
The House of Representative
February 14, ~~2011~~ 2012
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The bill seeks to address spiking and to more closely match the contributions with the funding required. We are concerned the bill may not accomplish these objectives. The bill does not appear to address spiking since it does not limit the amount of non-base pay included in compensation that is counted towards retirement benefits. The bill also does not appear to more closely match the contributions and funding required as it would result in charging employers more for non-base payments whether or not there is spiking. It does, however, place an unfair share of the burden of reducing the unfunded liability on employers with a large percentage of employees in emergency response jobs where overtime is more prevalent due to the nature of the work.

In light of our concerns, we respectfully ask that this bill be held.

Thank you for the opportunity to testify on House Bill 1811.

Yours truly,

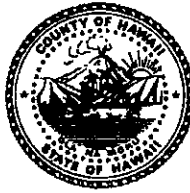


Michael R. Hansen, Director
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February 13, 2012

The Honorable Karl Rhoads, Chair
and Members of the House Committee on Labor & Public Employment
Hawai'i State Capitol
415 South Beretania Street
Honolulu, Hawai'i 96813

RE: Testimony for House Bill No. 1811
Hearing Tuesday, February 14, 2012, at 9:30 a.m., Conference Room 309

Honorable Chair Rhoads and Members of the Committee:

Hawai'i County supports the intent of H.B. 1811, to address the effects of spiking on the unfunded liability of the Employees' Retirement System, however, we have a number of concerns with the bill. Last year the rates that the employers pay to ERS were increased substantially, so we are unclear if the spiking component was already taken into account at that time. The additional three percent to be paid on overtime and premium compensation, will create an additional budgetary burden for hours and amounts that are contractually required – such as employees hired to work night shift. In general with the significant increase in rates paid to ERS, we will have a difficult time paying any additional amounts to ERS.

Thank you for your attention to our concerns.

Sincerely,

A handwritten signature in cursive script that reads "Nancy E. Crawford".

Nancy Crawford
Director of Finance