

SB 1104

TESTIMONY BY KALBERT K. YOUNG
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEES ON PUBLIC SAFETY, GOVERNMENT
OPERATIONS, AND MILITARY AFFAIRS AND EDUCATION
ON
SENATE BILL NO. 1104

February 9, 2011

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Senate Bill No. 1104 segregates teachers from all other employees for the determination of employer normal cost, accrued liability contributions, and annual contributions by the State and counties to the Employees' Retirement System.

The Department of Budget and Finance opposes this bill. The bill creates an unnecessary separate grouping for teachers who make the same contributions and share the same benefits as the members of the other general employee group. The current segregation of firefighters, police officers, and corrections officers and other general employees is a reflection of what each group receives as benefits, contributes to the system, and the contribution amounts paid for each group by the public employer. To create an artificial group for teachers will not result in a decrease in the total employer contribution to the Employees' Retirement System - it will only result in a cost shift between public employers.

Furthermore, passage of this bill may encourage other employee groups and employers to request to be separated, which will serve no meaningful purpose other than to shift contribution costs between public employers.

TESTIMONY BY WESLEY K. MACHIDA
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE SENATE COMMITTEE ON EDUCATION
AND
TO THE SENATE COMMITTEE ON PUBLIC SAFETY, GOVERNMENT OPERATIONS,
AND MILITARY AFFAIRS
ON
SENATE BILL NO. 1104

FEBRUARY 9, 2011

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chairs Tokuda and Espero and Members of the Committees:

The ERS Board of Trustees has not had an opportunity to review and discuss S.B.1104 and therefore takes no position at this time. However, the ERS provides the following information for the Committees to consider.

Hawaii law requires that the actuarial valuation determine the normal cost and unfunded actuarial accrued liability contributions separately for Police & Fire employees and All Other employees. S.B. 1104 would require that the All Other employees group be separated into two groups: Teachers and the remaining employees in the All Other employees group (this group would be referred to as All Other employees going forward). While the employer contribution rate for the Teachers will likely be higher and the remaining members in the All Other employees group will be lower, the total employer contributions to the ERS will be about the same. Passage of this bill may encourage other employee groups and employers to request to be separated, with the resulting cost impact and UAAL shown separately. This change will likely increase the fees for actuarial services to the ERS.

Thank you for the opportunity to testify on this bill.



Testimony of the

Hawaii Council of Mayors

Billy Kenoi, Mayor of Hawai'i County
Peter Carlisle, Mayor of the City and County of Honolulu
Bernard Carvalho, Jr., Mayor of Kaua'i County
Alan Arakawa, Mayor of Maui County

Before a Joint Hearing of the
Committee on Public Safety, Government Operations, & Military Affairs
and
Committee on Education
Wednesday, February 9, 2011
1:15 p.m.
Conference Room 225

Senate Bill 1104, Relating to the Employees' Retirement System

The Hawaii Council of Mayors (HCOM) supports Senate Bill 1104, which proposes to separate the teachers from general employees when determining employer normal costs, accrued liability contributions and annual contributions. The bill will correct the method of calculation which has the unfortunate and unfair result of requiring the counties to subsidize the State's retirement contributions.

As background, Police Officers and Firefighters have for many years been separated from other employees in calculating required employer contributions to the ERS. This police/fire group includes Corrections Officers; however, the majority of individuals included in this group are employed by the counties. The reason for the separation is that the police/fire (and corrections officer) group has distinctive characteristics and patterns that distinguish them from the general employee population resulting in a higher actuarial cost for retirement. The actuarially determined percentage



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County of Hawaii
25 Aupuni Street
Hilo, Hawai'i 96720



Mayor Peter Carlisle
City and County of Honolulu
530 South King Street
Honolulu, Hawai'i 96813



Mayor Bernard Carvalho, Jr.
County of Kaua'i
4444 Rice Street
Lihu'e, Hawai'i 96766



Mayor Alan Arakawa
County of Maui
200 South High Street, 9th Floor
Wailuku, Hawaii 96793

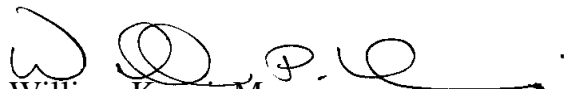
of payroll contributions the ERS requires from the counties for their police/fire employees is 19.7% whereas the current percentage for general employees (including teachers) is 15%.

In December 2008, at our request, Gabriel Roeder Smith & Company, consultants and actuaries to the ERS, completed a review that determined that teachers are also a group that can be separated. They found that if teachers were separated out from the general employee population, the contribution rate for all other general employees would be reduced to 13.7%. We estimate the result is a \$7.1 million subsidy to the State from the counties. The consultants noted that the difference between teachers and other employees is typically due to different behavioral patterns. Generally, teachers start work at an earlier age, retire at an earlier age, and live longer. In addition, there are possibly differences in salary increases. The consultants' review concluded that the counties have been subsidizing the State's contribution to the ERS.

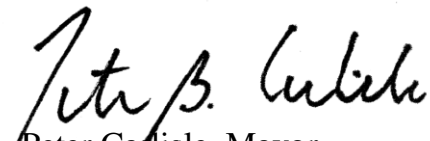
The Mayors feel that this is a matter of fairness. The counties have long been required to pay more for our police/fire employees because from a retirement perspective, they "cost" more. We feel that the State should pick up its fair share of the cost for the Teachers, and it should relieve the counties of this burden.

In light of the above, all Hawai'i Mayors stand united in urging you to pass this bill. We thank you for your consideration.


Sincerely,




William Kenoi, Mayor
County of Hawai'i



Peter Carlisle, Mayor
City and County of Honolulu



Bernard Carvalho, Jr., Mayor
County of Kaua'i



Alan Arakawa, Mayor
County of Maui

**OFFICE OF THE MAYOR
CITY AND COUNTY OF HONOLULU**

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PETER B. CARLISLE
MAYOR

DOUGLAS S. CHIN
MANAGING DIRECTOR

February 9, 2011

The Honorable Jill N. Tokuda, Chair
and Members of the Committee on Education
The Honorable Will Espero, Chair
and Members of the Committee on Public Safety,
Government Operations, and Military Affairs
The Senate
State Capitol
Honolulu, Hawaii 96813

Dear Chairs Tokuda and Espero and Members:

Subject: Senate Bill 1104, Relating to the Employees' Retirement System

The City and County of Honolulu strongly supports Senate Bill 1104, which proposes to separate the teachers from general employees when determining employer normal cost, accrued liability contributions and annual contributions. The bill is a Hawaii Council of Mayor's bill which will correct the current method of calculation which has the unfortunate—and unfair—result of requiring the counties to subsidize the State's retirement contributions.

Police Officers, Firefighters and Correction Officers have for many years been separated from other employees in calculating required employer contributions to the ERS. As such, the Retirement System has established the employer contribution rate for our police officers and fire fighters at 19.7%. General employees are at 15%. The differences are due to a number of characteristics that distinguish police and fire from all other employees.

A 2008 review conducted by the Retirement System's actuaries concluded that teachers are also a distinguishable group. They also concluded that the separation of the teachers from the other general employees would result in a decrease in the general employee contribution rate to 13.7%. This change would result in a very large savings for the City.

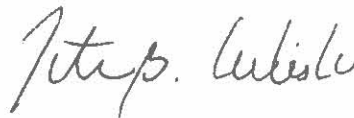
The Honorable Jill N. Tokuda, Chair
and Members of the Committee on Education
The Honorable Will Espero, Chair
and Members of the Committee on Public Safety,
Government Operations, and Military Affairs
The Senate
February 9, 2011
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The City understands that the State is hurting, but we are hurting no less—and this is a matter of fairness. We have paid for many years our fair share for our police officers and fire fighters and the State should now pay their fair share for the teachers.

In light of the above, we urge you to pass this bill.

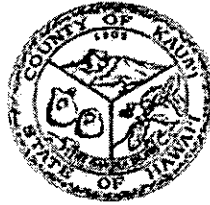
Thank you for the opportunity to testify.

Very truly yours,

A handwritten signature in cursive script that reads "Peter B. Carlisle".

Peter B. Carlisle
Mayor

Bernard P. Carvalho, Jr.
Mayor



Wallace G. Rezentes, Jr.
Director of Finance

Gary K. Heu
Managing Director

Sally A. Motta
Deputy Director of Finance

DEPARTMENT OF FINANCE
County of Kaua'i, State of Hawai'i
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February 3, 2011

The Honorable Senator Jill N. Tokuda, Chair
and Members
Committee of Education
The Twenty-Sixth Legislature
State Capitol
Honolulu, Hawai'i 96813

Dear Chair Tokuda and Members:

Subject: Senate Bill 1104 Relating to the Employees' Retirement System (ERS)

The County of Kaua'i supports S.B. 1104 which proposes to segregate Teachers from the General and Police/Fire Categories within the ERS. This will enable the ERS to properly and accurately account for and allocate the relative retirement costs to appropriate State of Hawai'i cost centers.

The State of Hawai'i approved similar legislation to properly account for and allocate costs to the Counties for Police and Fire Fighters. As there are distinct retirement characteristics for Teachers as well as for Police and Fire Fighters, there should be similar treatment of how the employee retirement system calculations are made. We stand in strong support of S.B. 1104.

Sincerely,

A handwritten signature in black ink, appearing to read "Wallace G. Rezentes, Jr.", is written over a faint, larger version of the same signature.

Wallace G. Rezentes, Jr.
Director of Finance

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