

# LATE TESTIMONY

TESTIMONY BY KALBERT K. YOUNG  
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR  
ON  
SENATE BILL NO. 1265

February 11, 2011

## RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Senate Bill No. 1265 changes retirement benefits for State and county employees who become members of the Employees' Retirement System of the State of Hawaii after June 30, 2012.

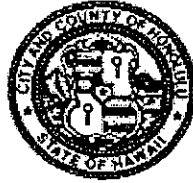
The Department of Budget and Finance strongly supports this Administration bill which will help to control increases in the cost of providing employee retirement benefits for State and county employers and to address Employees Retirement System's large unfunded liability. Although this measure will differentiate benefits within the Employees' Retirement System between employees based on their hire date, the Administration recognizes that such action is necessary to ensure the long-term viability of the Employees' Retirement System.

**LATE TESTIMONY**

DEPARTMENT OF BUDGET & FISCAL SERVICES  
**CITY AND COUNTY OF HONOLULU**

530 SOUTH KING STREET 2<sup>ND</sup> FLOOR • HONOLULU, HAWAII 96813  
TELEPHONE: (808) 768-3900 • FAX: (808) 768-3179 • INTERNET: www.honolulu.gov/hr

PETER B. CARLISLE  
MAYOR



MICHAEL R. HANSEN  
DIRECTOR

February 11, 2011

The Honorable Clayton Hee, Chair  
and Members of the Committee on Judiciary and Labor  
The Senate  
State Capitol  
Honolulu, Hawaii 96813

Dear Chair Hee and Members:

Subject: Senate Bill Nos. 1262, 1264, 1265, 1216, and 1341  
Relating to 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 Senate Bills 1262, 1264, 1265, 1216, and 1341 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 and a moratorium on benefit enhancements, as well as increases in the Employer contribution rate.

The increases in the Employer contribution provided in Senate Bill 1264 will have a severe negative impact on our budget going forward. Senate Bill 1216 may also negatively affect our budget. However, this is balanced by the provisions included in SB 1262, SB 1265, and SB 1341 that place a moratorium on benefit enhancements and 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.

The Honorable Clayton Hee, Chair  
and Members of the Committee on Judiciary and Labor  
The Senate  
February 11, 2011  
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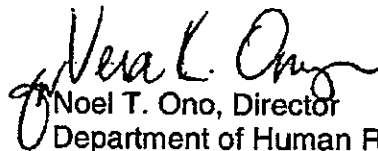
We realize this Committee is facing very difficult decisions on many matters, including this one. We urge the Committee to take the comprehensive approach needed to set the Retirement System on a sustainable path.

Thank you for the opportunity to testify on these measures.

Yours truly,

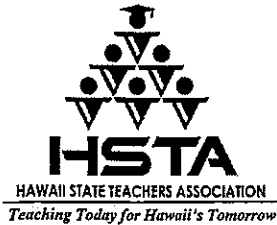


Michael R. Hansen, Director  
Department of Budget & Fiscal Services



Noel T. Ono, Director  
Department of Human Resources

# LATE TESTIMONY



1200 Ala Kapuna Street 2 Honolulu, Hawaii 96819  
Tel: (808) 833-2711 2 Fax: (808) 839-7106 2 Web: www.hsta.org

**Wil Okabe**  
President

**Karolyn Mossman**  
Vice President

**Joan Kamila Lewis**  
Secretary-Treasurer

**Alvin Nagasako**  
Executive Director

## TESTIMONY BEFORE THE SENATE COMMITTEE ON JUDICIARY & LABOR

RE: SB 1265 – RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

February 11, 2011

**WIL OKABE, PRESIDENT**  
**HAWAII STATE TEACHERS ASSOCIATION**

Chair Hee and Members of the Committee:

The Hawaii State Teachers Association opposes SB 1265. We agree that this bill submitted by the Employee Retirement System is done with the members' and future members' interests at heart to ensure the continuation of a sound and viable retirement system.

However, we feel that the increased amount in contributions will be very costly to future employees of our state. Changing the terms and conditions of compensation at the time of retirement will significantly reduce a retiree's compensation. The effect of these changes may result in our work force having to work longer to attain a monthly retirement that they will be able to live on.

This bill will negatively impact the future of Hawaii's ability to attract and retain highly qualified teachers. With Hawaii's high cost of living, our future teacher work force will look at other career opportunities outside of Hawaii.

We urge this committee to reassess the action for this bill and to take a less harsh approach in ensuring the stability of our Retirement System.

Thank you for the opportunity to submit testimony.

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STATE OF HAWAII  
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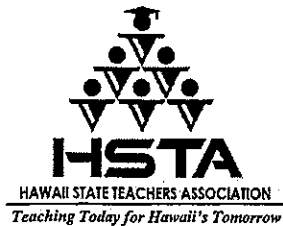
Yours truly,



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



Noel T. Ono, Director  
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February 11, 2011

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Chair Hee and Members of the Committee:

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We urge this committee to reassess the action for this bill and to take a less harsh approach in ensuring the stability of our Retirement System.

Thank you for the opportunity to submit testimony.



# LATE TESTIMONY

TESTIMONY BY WESLEY K. MACHIDA  
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR  
ON  
SENATE BILL NO. 1265

FEBRUARY 11, 2011

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Hee and Members of the Committee:

S.B. 1265 provides for retirement benefit changes for State and County employees who become members of the Employees' Retirement System of the State of Hawaii (ERS) after June 30, 2012. The ERS Board of Trustees strongly supports this bill.

The ERS Board would accept a contribution only solution to the current ERS financing issues. However, because the increases in employer contributions necessary to amortize the ERS's unfunded actuarial accrued liability (UAAL) within a 30-year period may not be feasible at this time, the ERS Board of Trustees has been working with its Actuary to design a benefit structure for new employees that reduces the long-term costs of the ERS, and also provides a reasonable retirement package to State and county employees when combined with other retirement vehicles such as Social Security. This bill is the result of those efforts.

This measure seeks to reduce future liability by making changes for future State and County employees, which will provide for reasonable changes to employer contribution rates while State and county employers face challenging budgets. Changes are being proposed for all employee groups to reduce the benefit multiplier, post retirement increase, and Hybrid Plan account; increase the vesting period, average final compensation (AFC) period, and employee contribution rate. The estimated dollar impact of these changes on the fiscal year 2013 contributions is as follows:

All Other Employees:

| Area                              | Change              | Estimated Dollar Impact to Contributions |
|-----------------------------------|---------------------|--|
| Benefit Multiplier                | 2% to 1.75%         | \$17.3 million                           |
| Post Retirement                   | 2.5% to 1.5%        | \$12.8 million                           |
| Hybrid Plan Account Multiplier    | 150% to 120%        | \$4.4 million                            |
| Average Final Compensation Period | 3 years to 5 years  | \$7.1 million                            |
| Vesting Period                    | 5 years to 10 years | \$4.8 million                            |
| Employee Contribution Rate        | 6% to 8%            | \$36.1 million                           |

Police & Fire:

| Area                              | Change              | Estimated Dollar Impact to Contributions |
|-----------------------------------|---------------------|--|
| Benefit Multiplier                | 2.5% to 2.25%       | \$2.2 million                            |
| Post Retirement                   | 2.5% to 1.5%        | \$2.3 million                            |
| Average Final Compensation Period | 3 years to 5 years  | \$1.4 million                            |
| Vesting Period                    | 5 years to 10 years | \$.1 million                             |
| Employee Contribution Rate        | 12.2% to 14.2%      | \$3.6 million                            |

All of these changes will result in cost savings, which will help to prevent further increases to the employer contribution requirements that would otherwise be necessary to amortize the ERS's UAAL within a 30-year period. The following cost savings (or reduced contribution savings) estimated by the ERS Actuary for the next 5 fiscal years are anticipated if all of the benefit changes for new hires are implemented:

FY 2012: \$54 million  
 FY 2013: \$92 million  
 FY 2014: \$95 million  
 FY 2015: \$98 million  
 FY 2016: \$101 million

The passage of this bill, along with S.B 1264 will result in employer contribution rates stabilizing over the next several years as follows:

All Other Employees (current rate at 15% of payroll; 6% for normal cost and 9% for unfunded liability):

FY 2012: 15%  
FY 2013: 15.5%  
FY 2014: 16%  
FY 2015: 16.5%  
FY 2016: 17%  
FY 2017: 17%

Police and Fire (current rate at 19.7% of payroll; 6% for normal cost and 13.7% for unfunded liability):

FY 2012: 19.7%  
FY 2013: 22%  
FY 2014: 23%  
FY 2015: 24%  
FY 2016: 25%  
FY 2017: 25%

Without the passing of S.B. 1265 or S.B. 1341, the employer contribution rates would require immediate increases in FY2012 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. These rates would be expected to increase to 19% for all other employees and 27% for Police and Fire over the next several fiscal years as the remaining investment losses from fiscal year 2009 are recognized.

As a result, the ERS Board of Trustees strongly supports the passage of S.B. 1265. Thank you for the opportunity to testify on this important measure.



## HAWAII FIRE FIGHTERS ASSOCIATION

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS LOCAL 1463, AFL-CIO  
2305 S. BERETANIA ST., RM. 202, HONOLULU, HAWAII 96826-1493  
TELEPHONE (808) 949-1566 FAX: (808) 952-6003  
WEBSITE: [www.hawaii firefighters.org](http://www.hawaii firefighters.org)

The Twenty-Sixth Legislature  
The Senate  
Committee on Judiciary and Labor  
February 11, 2011

**LATE TESTIMONY**

Testimony by  
Hawaii Fire Fighters Association

S.B. No. 1265 RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM  
S.B. No. 1341 RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

My name is Robert H. Lee and I am the President of the Hawaii Fire Fighters Association, Local 1463, IAFF, AFL-CIO. HFFA represents the 2,800 active and retired professional fire fighters throughout the State. As proposed, HFFA cannot support S.B. No. 1265 and S.B. No. 1341 as proposed although HFFA appreciates that this measure retains the current benefit calculation and structure for active employees.

While HFFA has many concerns about the bill, we strongly oppose the provision which adds the age requirement of 55 years old to the 25 years of service requirement to be eligible for unreduced benefits. In 1975, the Legislature removed the age requirement for fire fighters, police officers and corrections officers. House Standing Committee Report 702 (1975) recognized the "physical and mental stress caused by the hazards of the occupation(s)." Today, fire fighters face increased exposures to toxic biological materials, blood and air borne pathogens. A 2010 CareerCast.com study ranked fire fighting at the top of the list of most stressful professions citing "Firefighters frequently work irregular or unusual hours, or remain on call throughout the night. They risk heat exhaustion, smoke inhalation, and serious injury while on the job, and even the state of anticipation preceding a major threat can be highly stressful in itself. Firefighters are also sometimes required to spend long hours outdoors in bad weather." In addition, a 2007 Harvard study published in the New England Journal of Medicine found that coronary heart disease events such as heart attacks, is the leading cause of death of fire fighters on the job

In recognition of the working conditions, we would urge the committee to keep the current retirement eligibility the same for all fire fighters, active and prospective.

Thank you for the opportunity to comment on S.B. No. 1265 and S.B. No. 1341 and HFFA respectfully request full and forthright discussion to continue to allow for reasonable reform to the system. Thank you for the opportunity to provide comments on S.B. No. 1265 and S.B. No. 1341.

**LATE TESTIMONY**

SENATE COMMITTEE ON JUDICIARY AND LABOR

Date: Friday, February 11, 2011

Time: 9:15 a.m.

Place: Conference Room 016

S.B. 1265: Relating to the Employees' Retirement System

Chairman Clayton Hee and members of the Judiciary and Labor Committee, thank you for this opportunity to testify on SB 1265. My name is Odetta Fujimori, a former trustee of the ERS and a beneficiary of the Employees' Retirement System. I would like to express my concerns regarding SB 1265, which in my estimation is a very unreasonable Bill. It offers no incentives to new hires, but instead increases their contributions and diminishes their post retirement allowance from the current 2.5% to 1.5%. Along with this is the audacity of this legislative body to penalize the A and B employees but remain silent on the contributions by future legislators and keeps in place their post retirement allowance at 3%. In my reasonable judgement, this is grossly unfair.

My retired colleagues and I have been exploring various options as to what might be a fair and reasonable post retirement allowance. For the current retirees over 75 years of age, with 20+ years of service and who need the most assistance, S.B. 649 addresses that issue.

As for S.B. 1265, the only component that we could find some comfort is in to amend Section 7(c) to set the post retirement allowance for the first ten years of retirement be at 2% compounded, followed by 2.5% compounded for the next ten years, and then going forward beyond year 21, that it (post retirement allowance) be pegged at 3% compounded. Personal experiences have indicated that there is a certain comfort level during the initial years of retirement, but over time, one's needs begin to escalate. We believe this is a reasonable suggestion, but if you are not comfortable with this "model" then we recommend that this concept be studied, while SB 1265 be held in abeyance.

Thank you for your time.