

**SB2751**

**TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR  
ON  
SENATE BILL NO. 2751**

**February 8, 2012**

**RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM**

Senate Bill No. 2751 proposes to revise the statutory requirement for one of the appointed trustees to the Employees' Retirement System (ERS) from having banking experience to instead having experience in the area of finance.

The Department of Budget and Finance supports this Administration bill. The role of the ERS is vitally important to the government employees and retirees from state and county government service. As the size and corpus of the ERS has grown over the decades, so has the experience and desired credentials of trustees who are selected to manage the system. Furthermore, the ERS has become much more involved in the nature and substance of its investments as a means to garner the best possible return for beneficiaries while safeguarding the corpus to ensure long-term viability of the system. Senate Bill No. 2751 revises Hawaii Revised Statutes to make the type of experience sought for in one of the eight trustees to be more contemporary with the requirements of the managing a multi-billion dollar trust.

The Department urges the support of the Senate Committee on Judiciary and Labor in recommending passage of Senate Bill No. 2751.

TESTIMONY BY WESLEY K. MACHIDA  
ADMINISTRATOR OF THE EMPLOYEES' RETIREMENT SYSTEM  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR  
ON  
SENATE BILL NO. 2751

FEBRUARY 8, 2012

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Hee and Members of the Committee,

S.B. 2751 proposes to amend section 88-24 of the Hawaii Revised Statutes ("HRS") to require that at least one of the ERS Board of Trustees' three appointed trustees has substantial investment experience.

The ERS Board of Trustees supports this bill.

The ERS currently has over \$11 billion in domestic and international investments. Investment decisions made by the ERS Board concerning the \$11 billion of investments are critical to the current and future funding of the ERS, which has an unfunded actuarial accrued liability of \$8.164 billion as of June 30, 2011. While contributions from employers and employees are two sources of money received to help fund the system, investments have a greater impact to the future sustainability of the system during periods when the Hawaii economy is not growing or declining. Because investments are critical to the overall funding of the ERS, it is imperative that at least one of the ERS Board of Trustees has substantial investment experience.

Under HRS § 88-24, the ERS Board is currently comprised of eight members:

- The director of finance as an ex officio member
- Four members of the system by election
  - two general employees
  - one teacher
  - one retirant
- Three citizens of the State appointed by the Governor, one of whom shall be a responsible officer of a bank authorized

to do business within the State, or a person of similar experience

While a responsible officer of a bank may have substantial investment experience that is not always the case. Thus, this amendment more specifically requires that at least one of the appointed trustees has "substantial experience providing financial services, including investments, to public, corporate, or private institutional clients."

For the reasons stated above, the ERS Board of Trustees strongly supports this bill.

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

DEPARTMENT OF BUDGET & FISCAL SERVICES  
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PETER B. CARLISLE  
MAYOR



MICHAEL R. HANSEN  
DIRECTOR

February 8, 2012

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 2751  
Relating to the Employee's Retirement System

The Departments of Budget and Fiscal Services and Human Resources support Senate Bill 2751, which amends the provisions regarding the Board of Trustees of the Employees' Retirement System, and offer a suggested change.

As noted, we support the amendment being proposed to better ensure the Board will include a trustee with substantial investment experience. However, in light of the efforts of the counties to secure a seat on the ERS Board, we respectfully request that the bill be amended to include provisions for a county representative.

In past testimony before the Legislature, we have noted that the counties comprise four of the five public employers contributing to the ERS, but have no votes on its board. We have also noted that the decisions of the ERS board significantly affect the City and all the counties, our employees, and our retirees, yet the state is the only public employer with a seat on the board. Although we acknowledge the service and contributions of the ERS board, no one on the board has a comprehensive knowledge of the effect of board decisions on the counties or their employees and retirees. Senate Bill 2750, which is also being heard today, is an example of how county representation may have enhanced the discussion. We suspect that many of the questions we now have could have been addressed if the counties had input during the discussion on the Board endorsed bill.

For the reasons stated, we support passage of this bill with an amendment. Thank you for the opportunity to testify on Senate Bill 2751.

Yours truly,

Handwritten signature of Michael R. Hansen in black ink.

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

Handwritten signature of Noel T. Ono in black ink.

Noel T. Ono, Director  
Department of Human Resources