

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

**February 28, 2012**

**RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM**

Senate Bill No. (SB) 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. SB 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 SB 2751.

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

FEBRUARY 28, 2012

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Ige 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.