

TESTIMONY BY WESLEY K. MACHIDA  
EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM  
STATE OF HAWAII

TO THE HOUSE COMMITTEE ON FINANCE  
ON  
HOUSE BILL NO. 2263, H.D. 1

February 19, 2014, 3:00 PM

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Luke and Members of the Committee:

H.B. 2263, H.D. 1, amends Section 88-63, Hawaii Revised Statutes, by changing the formula for crediting unused sick leave to retirement benefits for public employees who become members of the Employees' Retirement System (ERS) after June 30, 2014.

Currently, members of the ERS who retire or leave public service with sixty or more days of accumulated unused sick leave receive one month of service credit for retirement benefit purposes for every twenty days of accumulated unused sick leave. These members receive additional retirement benefits based on the additional service credit, but do not make any contributions for the additional retirement benefits.

The additional costs of providing retirement benefits based on accumulated unused sick leave are borne by the ERS and, ultimately, by the public employers. As you are aware, the current unfunded liability of the ERS is \$8.4 billion and the projected period for the system to become fully funded is 28 years.

For FY 2013, the State and Counties contributed \$581 million to the ERS, while employees contributed \$186 million. Employer rates are currently at 23.0% of compensation for Police/Fire employees and at 16.0% of compensation for general employees. These rates will increase by an additional 1.0% for Police/Fire employees and an additional .5% for general employees on July 1, 2014 and July 1, 2015.

This bill will reduce by one-half the amount of retirement service credited for accumulated sick leave for public employees who join the Employees' Retirement System after June 30, 2014. This reduction will help to reduce the amortization period of the unfunded liability of the Employees' Retirement System by

one to 1-1/2 years and will reduce future employers' contributions by approximately \$581 million (in today's dollars), and will also help to keep employer contribution costs from escalating. Furthermore, although the amount of service credited for accumulated sick leave will be reduced, affected public employees will still have an incentive to not abuse their sick leave.

The ERS Board of Trustees supports the passage of this bill.

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

TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
HOUSE BILL NO. 2263, H.D. 1

FEBRUARY 19, 2014

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

House Bill No. 2263, H.D.1, changes the formula for crediting unused accrued sick leave when employees who are hired after June 30, 2014 eventually retire.

The Department supports this administration measure. The benefits of this bill are:

1. This measure would only affect employees who are not yet hired yet – new employees hired after June 30, 2014, who are not already members of the Employees' Retirement System (ERS).
2. In addressing concerns of some unions that this would create a disparity of retirement benefits amongst employees who work side by side, it should be noted that there already exists a diversity of retirement benefit programs for employees. Even prior to the ERS reform measures that past in 2011, 2012, and 2013, there already existed different retirement benefit plans for employees based on their date of hire.
3. This measure would address a contributor of unfunded liability in the ERS. The very definition of unfunded liability is that the system would pay benefits for which it did not receive adequate funding – that is exactly what is happening when we allow for increasing of a person's pension benefits

without any contribution of funds from either employer or employee. This bill would significantly reduce – but not eliminate - the continued contribution of this practice towards the growth of unfunded liabilities in the pension system.



## HAWAII GOVERNMENT EMPLOYEES ASSOCIATION

AFSCME Local 152, AFL-CIO

RANDY PERREIRA, Executive Director • Tel: 808.543.0011 • Fax: 808.528.0922

The Twenty-Seventh Legislature, State of Hawaii  
House of Representatives  
Committee on Finance

Testimony by  
Hawaii Government Employees Association  
February 19, 2014

H.B. 2263, H.D. 1 – RELATING TO  
THE EMPLOYEES' RETIREMENT SYSTEM

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly opposes the purpose and intent of H.B. 2263, H.D. 1, which changes the formula for crediting unused sick leave while calculating an employee's retirement benefit. Although we understand the need for measures to ensure the solvency of the Employees' Retirement System's funds, we respectfully disagree that making additional significant benefit reductions to future employees is the best route.

As you are well aware, in 2011, the Legislature passed Act 163, Session Laws of Hawaii (SLH) and in 2012 passed Act 152, SLH, which combined, drastically reduced the retirement calculation for Employees hired after June 30, 2012. Packaged together, these reforms were advertised as essential to place the ERS on the necessary trajectory to curb the unfunded liability. Passage of H.B. 2263 will further deteriorate the already scaled back benefits package for future employees and create yet another lower tiered class of workers. An office could potentially hire three employees, within the past few years, all performing the same duties, but each of the three with significantly different retirement packages. This continued, piecemeal, and haphazard policy approach is destructive to morale and recruitment. We simply cannot afford to continue to slash and cut our way to prosperity. We must collectively commit to ensuring that the best and brightest employees join and remain in the workforce, creating fair and attractive salary and benefit packages, and addressing the fund's solvency in a holistic manner.

We respectfully request the Committee defer this measure. Thank you for the opportunity to testify in opposition to H.B. 2263, H.D. 1.

Respectfully submitted,

Randy Perreira  
Executive Director



House Committee on Finance  
Wednesday, February 19, 2014  
3:00 p.m.

**HB 2263, HD1, Relating to the Employees' Retirement System.**

Dear Chairperson Luke and Committee Members:

The University of Hawaii Professional Assembly is opposed to HB2263, HD1 and the diminution of credit for unused sick days for new employees. UHPA notes that there has been a steady decline in the relative value of retirement benefits for new employees. Continuing to diminish these benefits has a direct impact on retention of these faculty members. It can also impact the recruitment of new employees increasing the likelihood that employment at UH is less desirable.

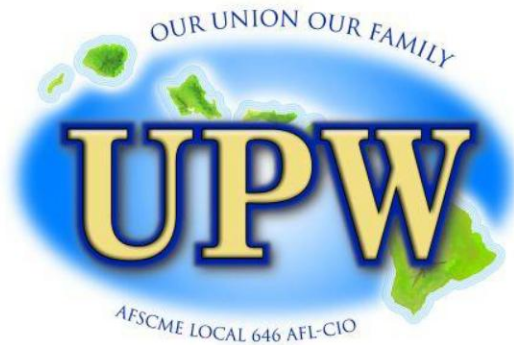
UHPA encourages the committee to defer this measure.

Respectively submitted,

Kristeen Hanselman  
Associate Executive Director

UNIVERSITY OF HAWAII  
PROFESSIONAL ASSEMBLY

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THE HAWAII HOUSE OF REPRESENTATIVES  
The Twenty-Seventh Legislature  
Regular Session of 2014

COMMITTEE ON FINANCE

The Honorable Rep. Sylvia Luke, Chair  
The Honorable Rep. Aaron Ling Johanson, Vice Chair  
The Honorable Rep. Scott Y. Nishimoto, Vice Chair

DATE OF HEARING: Wednesday, February 19, 2014

TIME OF HEARING: 3:00 PM

PLACE OF HEARING: Conference Room 308

**TESTIMONY ON HB2263 HD1 RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM**

By DAYTON M. NAKANELUA,  
State Director of the United Public Workers, AFSCME Local 646, AFL-CIO

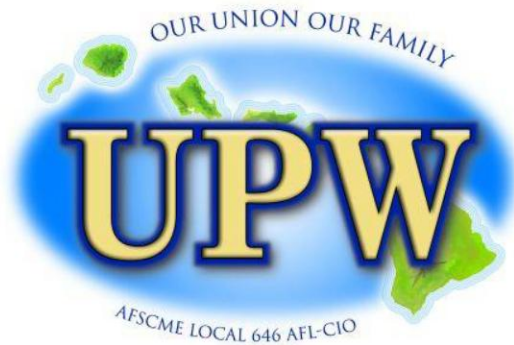
My name is Dayton M. Nakanelua and I am the State Director of the United Public Workers, AFSCME, Local 646, AFL-CIO (UPW). The UPW is the exclusive representative for approximately 14,000 public employees, which include blue collar, non-supervisory employees in Bargaining Unit 01 and institutional, health and correctional employees in Bargaining Unit 10, in the State of Hawaii and various counties. The UPW also represents about 1,500 members of the private sector.

The UPW strongly opposes HB2263, which changes the formula for crediting unused sick leave to retirement benefits for public employees who become members of the Employees' Retirement System after June 30, 2014.

Reducing retirement benefits for employees hired after June 30, 2014 would create serious problems for the workforce as well as the workplace. First of all, it hinders the ability to recruit the best and brightest applicants. Secondly, it poses a challenge to retain quality workers. Finally, it promotes problems within the workplace environment. Employees doing the exact same work while not receiving the same benefits would negatively impact worker's attitude and morale. UPW cannot support this measure because it does not follow the ideal of "equal pay for equal work".

We request that this measure be held in committee.

Thank you for the opportunity to testify on this measure.



THE HAWAII HOUSE OF REPRESENTATIVES  
The Twenty-Seventh Legislature  
Regular Session of 2014

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## HAWAII FIRE FIGHTERS ASSOCIATION

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS LOCAL 1463, AFL-CIO  
1018 PALM DRIVE, HONOLULU, HAWAII 96814-1929  
TELEPHONE (808) 949-1566 FAX: (808) 952-6003  
WEBSITE: [www.hawaii firefighters.org](http://www.hawaii firefighters.org)

**LATE**

HOUSE OF REPRESENTATIVES  
THE TWENTY-SEVENTH LEGISLATURE  
REGULAR SESSION OF 2014  
February 19, 2014

Committee on Finance

Testimony by  
Hawaii Fire Fighters Association

H.B. No. 2263, H.D. 1      Relating to the Employees' Retirement System

My name is Robert H. Lee and I am the President of the Hawaii Fire Fighters Association (HFFA), Local 1463, IAFF, AFL-CIO. The HFFA represents approximately 2,100 active-duty professional fire fighters throughout the State. HFFA opposes H.B. No. 2263, H.D. 1 which proposes to change the formula used to credit unused sick leave towards retirement which reduces retirement benefits for employees hired after June 30, 2014.

Since 1996, public employee retiree health and retirement benefits have been reduced for new hires. This has created disparate retirement benefits among public employees solely based on their date of hire while they are doing the same job.

Thank you for the opportunity to testify.