

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

TO THE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 2263

JANUARY 31, 2014, 9:00 AM

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Nakashima and Members of the Committee:

H.B. 2263 changes 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 Employees' Retirement System 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.

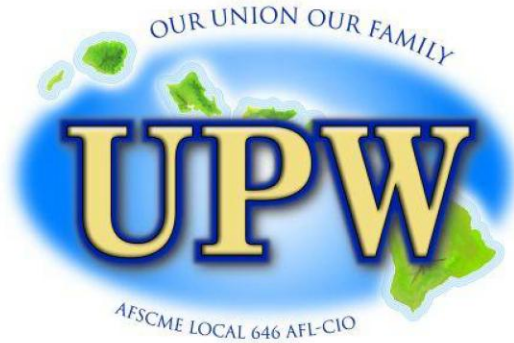
For FY 2013, the State and Counties contributed \$581 million to the ERS, while employees contributed \$186 million. Employer rates are currently at 23.0% of compensation for Police/Fire employees and at 16.0% of compensation for general employees. These rates will increase by an additional 1.0% for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



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

COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
The Honorable Rep. Mark M. Nakashima, Chair
The Honorable Rep. Kyle T. Yamashita, Vice Chair

DATE OF HEARING: Friday, January 31, 2014
TIME OF HEARING: 9:00 a.m.
PLACE OF HEARING: Conference Room 309

**TESTIMONY ON HB2263 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 opposes HB2263 to change 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.

Thank you for the opportunity to testify on this measure.



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

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LATE

The Twenty-Seventh Legislature, State of Hawaii
House of Representatives
Committee on Labor and Public Employment

Testimony by
Hawaii Government Employees Association
January 31, 2014

H.B. 2263 - 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, 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 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. Passage of H.B. 2263 will further deteriorate the already scaled back benefits package and create yet another, lower tier of employees. An office could potentially hire three employees, within the past few years, 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 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.

Respectfully submitted,

Randy Perreira
Executive Director

LATE

SUMMATION OF TESTIMONY
KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 2263

JANUARY 31, 2014

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Dear Chair Nakashima and Committee Members:

At your committee hearing of January 31, 2014, I provided the following comments and would like to provide a summation of those comments in writing. House Bill No. 2263 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. I did note that 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.

Thank you for the opportunity to provide my comments on this bill after the committee hearing.