

**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 1036**

February 20, 2013

RELATING TO EMPLOYEES' RETIREMENT SYSTEM PERSONNEL

Senate Bill No. 1036 authorizes the Board of Trustees of the Employees' Retirement System (ERS), through its administrator, to appoint investment officers for the system and to change the title of the "Administrator" of the system to "Executive Director".

The Department of Budget and Finance strongly supports this Administration bill which is necessary to strengthen the ability of the ERS to continue to grow its corpus, which currently has in excess of \$12 billion dollars in domestic and international investments. Successful investments of these funds are critical to the current and future funding of the ERS, which has an unfunded actuarial accrued liability of \$8.4 billion as of June 30, 2012. The ERS' investment staff consists of a Chief Investments Officer and an Investment Specialist which is inadequate given the uncertainty and complexity of the modern financial markets and the need for the ERS Board to be provided with ongoing tactical and strategic insights into the risk-return trade-offs of multiple asset class investments. The ability of the ERS Board, through its administrator to appoint exempt, qualified and experienced investment officers is necessary to ensure that the ERS' investment portfolio is best positioned to meet its asset goals and reduce the ERS' unfunded liability. Further in-house knowledge and expertise can also serve to save up

to \$1 million in annual research, analytics, transition, monitoring, and other functions that ordinarily would be paid to consultants. Finally, the proposed title change of the "Administrator" of the ERS to "Executive Director" is necessary to be consistent with the title of the administrative head of other governmental agencies and other public pension funds.