

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. 1354

February 11, 2013

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Senate Bill No. 1354 replaces the flat percentage for post-retirement allowances with a graduated schedule of percentages.

The Department of Budget and Finance opposes this bill because it will increase the unfunded actuarial accrued liability of the Employees' Retirement System (ERS), which as of June 30, 2012, is valued at \$8.4 billion. Graduating increases in benefits over the later periods of a pensioner's life is counter to providing sound financial means for the ERS to meet its financial obligations. Growing benefits that need to be paid out of the System after all employee and employer contributions have already been made creates a situation where the ERS would have to earn increasing rates of return to satisfy pension benefits. As it currently stands, the ERS is severely challenged to earn an adequate rate of return to meet long-term future obligation given the state of the financial markets and interest rate environment.

Furthermore, Act 29, SLH 2011, amended Chapter 88, HRS, to mandate that "[t]here shall be no benefit enhancements under this chapter for any group of members, including any reduction of retirement age, until such time as the actuarial

values of the system's assets is one hundred percent of the system's actuarial accrued liability." House Bill No. 1354 provides for benefit enhancements for employees hired after June 30, 2013, by setting the post-retirement allowances at a higher rate than other retirees beginning in the 21<sup>st</sup> year of retirement.

TESTIMONY BY WESLEY K. MACHIDA  
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR  
ON  
SENATE BILL NO. 1354

FEBRUARY 11, 2013

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Hee and Members of the Committee:

S.B. 1354 amends section 88-90 by replacing the current flat percentage post-retirement allowances provided to retirants of the Employees' Retirement System (ERS) with a graduated schedule of percentages distributed over the length of a retirant's retirement.

Currently the post-retirement allowance for members of the ERS prior to July 1, 2012 is 2.5% of their monthly pension, annuity or retirement allowance as originally computed. The post-retirement allowance for members after June 30, 2012 will be at 1.5% of their monthly pension, annuity or retirement allowance as originally computed. This bill proposes a graduated scale for all ERS members (regardless of membership date) and retirees (including current retirees) starting from 1.25% to 3.0% based on the number of years retired. For members prior to July 1, 2012, the post-retirement allowance will be lower than their current 2.5% rate if retired for fewer than 21 years, and for those who have been retired for more than 25 years, the post-retirement rate would be greater. For members after June 30, 2012, the post-retirement allowance will be greater than their current 1.5% rate after 20 years of retirement.

The ERS Board of Trustees opposes this bill as it provides a possible benefit enhancement and therefore, violates section 88-99, Hawaii Revised Statutes, which places a moratorium on any benefit enhancements until the actuarial value of the ERS' assets are 100% of its accrued liability - or until the ERS is fully funded. To fully understand the impact of S.B. 1354 on the System, its members and beneficiaries, would require a comprehensive study including an actuarial cost analysis.

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

hee2 - Kathleen

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Friday, February 08, 2013 4:11 PM  
**To:** JDLTestimony  
**Cc:** mkurihara@hgea.org  
**Subject:** \*Submitted testimony for SB1354 on Feb 11, 2013 10:00AM\*

**SB1354**

Submitted on: 2/8/2013

Testimony for JDL on Feb 11, 2013 10:00AM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Randy Perreira	HGEA	Oppose	No

Comments:

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Senate Committee on Judiciary and Labor  
Monday, February 11, 2013  
10:00 a.m.

**SB 1354, Relating to the Employees' Retirement System**

Dear Chairman Hee and Committee Members:

The University of Hawaii Professional Assembly strongly opposes the purpose and intent of the SB 1354, which appears to not only diminish the level of a post retirement allowance, but impairs the accrued benefits for retirees. SB 1354 is ambiguous and creates uncertainty as to its application for current retirees and provisions that may alter future pension benefits for current employees.

UHPA urges the Committee to oppose these alterations to the Employees' Retirement System.

Respectively submitted,

Kristeen Hanselman  
Associate Executive Director

UNIVERSITY OF HAWAII  
PROFESSIONAL ASSEMBLY

1017 Palm Drive • Honolulu, Hawaii 96814-1928  
Telephone: (808) 593-2157 • Facsimile: (808) 593-2160  
Web Page: <http://www.uhpa.org>



02-11-13 SB-1354 test

Honorable Clayton Hee, Chairman  
Senate Judiciary Committee  
Hawaii State Capitol  
Honolulu, Hawaii

Aloha Chairman Hee, Vice-Chair Senator Shimabukuro and members of the Senate Judiciary Committee,

Mahalo for the opportunity to submit testimony in support of SB 1354 pertaining to the Post Retirement Allowance (PRA) benefit of the state Employees Retirement System (ERS). SB 1354 seeks to amend Section 1 of Section 88-90 HRS (Post Retirement Allowance) passed in the 2011 Legislative Session.

The PRA is a highly beneficial program whose purpose under law is to help all “public” retirees cope with cost of living increases (inflation) during retirement. Notwithstanding its noble purpose however, PRA needs improvement for better fiscal efficacy and equity among retirees by bringing closer linkage between PRA dollars being expended and inflation, the very problem for which PRA was created.

SB 1354 amends aforementioned Section 1 above via a graduated system delivering less PRA in early retirement and gradually increasing into the back end of retirement. (Linkage: Inflation impacts retirees less in early retirement and grows greater with time in retirement.) Also, in amending Section 1 of Section 88-90 HRS, SB 1354 affects county/state new hires only as of July 1, 2012.

Thank you again for hearing this testimony and supporting SB 1354 to fulfillment.

Respectfully submitted,  
Yoshiichi “Joe” Tanaka, Member  
HSTA-R Retirement Issues Committee

xc. HSTA-R RIC

**hee2 - Kathleen**

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Saturday, February 09, 2013 9:30 AM  
**To:** JDLTestimony  
**Cc:** stephenono@hotmail.com  
**Subject:** Submitted testimony for SB1354 on Feb 11, 2013 10:00AM

**SB1354**

Submitted on: 2/9/2013  
Testimony for JDL on Feb 11, 2013 10:00AM in Conference Room 016

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
STEPHEN ONO	Individual	Support	No

Comments: To Senator Clayton Hee, Chair Senate Judiciary Committee To the members of the Senate Judiciary Committee, my name is Stephen Ono and I am requesting your support for SB 1354. As a retiree participating in the Retirement System (ERS), I appreciate the benefits of this program, However, during this period of time, I found that the cost of living is quickly passing the annual increase of my pension. I believe that the concept of adjustment in the manner of distribution of pensions as presented in this bill is worth consideration and even further discussion. While I'm not familiar with the actuarial table fo life expectancy nor an accountant, I believe that the savings generated from a smaller percentage, in the early years of retirement, would help the reimbursement of a higher percentage in the later years of retirement. Especialy when the health cost appear to be more of a concern of the elderly. Please support SB 1354. Stephen Ono 819 Kaumana Drive Hilo, Hawaii 96720

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### **SB1354**

Submitted on: 2/9/2013

Testimony for JDL on Feb 11, 2013 10:00AM in Conference Room 016

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
STEPHEN ONO	Individual	Support	No

Comments: To Senator Clayton Hee, Chair Senate Judiciary Committee To the members of the Senate Judiciary Committee, my name is Stephen Ono and I am requesting your support for SB 1354. As a retiree participating in the Retirement System (ERS), I appreciate the benefits of this program, However, during this period of time, I found that the cost of living is quickly passing the annual increase of my pension. I believe that the concept of adjustment in the manner of distribution of pensions as presented in this bill is worth consideration and even further discussion. While I'm not familiar with the actuarial table fo life expectancy nor an accountant, I believe that the savings generated from a smaller percentage, in the early years of retirement, would help the reimbursement of a higher percentage in the later years of retirement. Especialy when the health cost appear to be more of a concern of the elderly. Please support SB 1354. Stephen Ono 819 Kaumana Drive Hilo, Hawaii 96720

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