

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR
ON
SENATE BILL NO. 1088

February 17, 2015

RELATING TO RETIREMENT CREDIT FOR UNUSED SICK LEAVE

Senate Bill No. 1088 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, 2015.

The Department of Budget and Finance supports this Administrative sponsored measure which will help the ERS to reduce its unfunded actuarial accrued liability in the future.

TESTIMONY BY KANOE MARGOL
INTERIM EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII

TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR
ON
SENATE BILL NO. 1088

FEBRUARY 17, 2015, 8:45 a.m.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Keith-Agaran, Vice Chair Shimabukuro and Members of the Committee:

S.B. 1088 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, 2015.

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 \$8.57 billion and the projected period for the system to become fully funded is 26 years.

For FY 2014, the State and Counties contributed \$653 million to the ERS, while employees contributed \$206 million. Employer rates are currently at 24.0% of compensation for Police/Fire employees and at 16.50% 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, 2015, rates at which they will remain going forward.

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, 2015. This reduction will help to reduce the amortization period of the unfunded liability of the ERS 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 not to unnecessarily use their sick leave days.

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

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



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

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The Twenty-Eighth Legislature, State of Hawaii
The Senate
Committee on Judiciary and Labor

Testimony by
Hawaii Government Employees Association
February 17, 2015

**S.B. 1088 – RELATING TO RETIREMENT
CREDIT FOR UNUSED SICK LEAVE**

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO opposes the purpose and intent of S.B. 1088, which changes the formula for crediting unused sick leave while calculating an employee's retirement benefit for future employees.

We respectfully disagree that making additional significant benefit reductions to future employees is the best and only route to ensure solvency of the state retirement plan. 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 S.B. 1088 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 identical 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 S.B. 1088

Respectfully submitted,

Randy Perreira
Executive Director