



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION

AFSCME Local 152, AFL-CIO

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

The Twenty-Eighth Legislature, State of Hawaii
The Senate
Committee on Ways and Means

Testimony by
Hawaii Government Employees Association
March 2, 2016

S.B. 3000, S.D. 1 – RELATING TO THE
EMPLOYEES' RETIREMENT SYSTEM

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly supports the purpose and intent of S.B. 3000, S.D. 1, with a proposed amendment. Under this bill, employees whose positions are identified for layoff due to privatization will become eligible for a retirement incentive up to a maximum of three years of service credit as of the date of retirement.

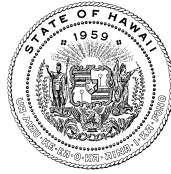
As drafted, S.B. 3000, S.D. 1 only applies to employees who are already eligible for a service retirement as of the date of application for retirement. However, we respectfully request that this benefit be extended to include all employees who are only a few years short of being eligible for retirement. Without such assistance, employees may face economic hardship that will be permanent through no fault of their own. We cannot allow that to occur.

Thank you for the opportunity to testify in support of S.B. 3000, S.D. 1 with the suggested amendment.

Respectfully submitted,

Randy Perreira
Executive Director

DAVID Y. IGE
GOVERNOR



WRITTEN ONLY

WESLEY K. MACHIDA
DIRECTOR

RODERICK K. BECKER
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE**

P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 3000, S.D. 1

March 2, 2016
9:30 a.m.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Senate Bill No. 3000, S.D. 1, amends Chapter 88, Hawaii Revised Statutes (HRS), by adding a new section to Subpart C of Part II, to establish a retirement benefit incentive for public employees, otherwise eligible to retire, whose positions are subject to layoff due to the consolidation or abolition of functions, or the privatization of the functions of the position. This measure will sunset on July 1, 2018.

The Department of Budget and Finance opposes this bill that will provide an enhancement to retirement benefits. This measure provides retirement-eligible employees with a retirement incentive of 1/12 of a year for each year of service, up to a maximum of three years of service credit. The cost for this incentive is unknown at this time but could be significant. Furthermore, it is unclear as to the need for a retirement benefit enhancement for someone who is already eligible to retire.

In addition, this benefit enhancement is counter to Section 88-99, HRS, which places a moratorium on benefit enhancements until such time as the actuarial value of the Employees' Retirement System's (ERS) assets is 100% of the ERS' unfunded actuarial accrued liability (UAAL). This bill will only add to the ERS' UAAL by enhancing benefits to employees who are already eligible to retire.

DAVID Y. IGE
GOVERNOR



THOMAS WILLIAMS
EXECUTIVE DIRECTOR

KANOE MARGOL
DEPUTY EXECUTIVE DIRECTOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

TESTIMONY BY THOMAS WILLIAMS
EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII

TO THE SENATE COMMITTEE ON WAYS AND MEANS

SENATE BILL NO. 3000, S.D. 1

MARCH 2, 2016, 9:30 A.M.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Tokuda, Vice Chair Dela Cruz, and Members of the Committee,

S.B. 3000, S.D. 1 provides for a retirement benefit incentive for members of the Employees' Retirement System (ERS) who are eligible for retirement and serve in positions that have been identified for layoff due to the consolidation or abolition of functions, or the privatization of the functions of the positions under Act 103, Session Laws of Hawaii 2015. These members would be eligible for additional retirement service credit of up to three years.

As of the submittal of this testimony, the Board of Trustees of the Employees' Retirement System (ERS) has not yet reviewed S.B. 3000, S.D. 1 and therefore has not yet taken a formal position on the "special retirement benefit" offered by this proposal. However, the ERS Board has been unwavering in its position that any benefit provided must include the funding necessary to cover its cost and/or amortize the cost of the benefit over time thereby avoiding any increase in the plan's unfunded liability.

The loss to the ERS of ongoing employer and employee contributions as envisioned by Act 103, SLH 2015, even absent of other special provisions, is forecast to increase the plan's unfunded liability substantially. This increase in the unfunded liability may result in higher contribution requirements or the maintenance of existing contributions for a longer period of time.

The ERS staff has the following comments and concerns on S.B. 3000, S.D. 1:



Employees' Retirement System
of the State of Hawaii

1. This bill should be revised to make it clear that any retirement provisions would only be applicable to employees affected by Act 103, Session Laws of Hawaii 2015.
2. It is unclear whether the identified members must lose their position as part of a layoff when their position is privatized. In other words, is the member entitled to the retirement benefit incentive even if the member remains employed with the privatized entity? It is unclear whether the member would be eligible to retire and commence their benefit from ERS even if they have continued employment with the private entity or in another State or county position, this would seem a superfluous benefit if they have continued employment. The identified member could also take the retirement benefit incentive, retire, and then immediately return to work in another ERS covered position.
3. The additional service credit provided by this bill potentially increases a general employee's retirement benefit by an additional 3.75 to 6 percent. The percentage increase would be greater for other employee categories. This provision would violate Section 88-99, HRS, regarding the moratorium on benefit enhancements until the ERS is fully funded.
4. There is no funding provided in this bill; in other words, there is no requirement that either the employer or employee would have to make contributions for or pay for the actuarial cost of the enhanced benefit. This means that the unfunded liability will be increased and all employers would absorb the increased costs of this special retirement benefit through increased contribution rates or by maintaining the current rates for a longer period of time.
5. The ERS actuary is reviewing the cost of the enhanced retiree benefit. However, the expected impact on ERS funding due to the loss of payroll for the employees and the employer due to Act 103, SLH 2015, will be significantly greater. With the loss of approximately \$100 million in covered payroll, the ERS will receive \$11 to \$15 million less in contributions in fiscal year 2017 towards the payment of its unfunded actuarial accrued liability. The present value of these lost future contributions over the next 26 years is approximately \$213 million. In order to make the ERS whole, the contribution rates for the remaining employers would need to increase by an additional .39 percent.
6. This bill would also set a precedent for an ERS member to receive service credit for "time" in which the member had not actually been employed by the State or a county, serving in the military, or otherwise engaged in a government function.

On behalf of the Board of Trustees and staff of ERS we wish to thank you for the opportunity to testify.

From: mailinglist@capitol.hawaii.gov
To: [WAM Testimony](#)
Cc: goodhone@gmail.com
Subject: *Submitted testimony for SB3000 on Mar 2, 2016 09:30AM*
Date: Monday, February 29, 2016 10:01:27 AM

SB3000

Submitted on: 2/29/2016

Testimony for WAM on Mar 2, 2016 09:30AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Virgil Medeiros	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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