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STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

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

TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR
ON

HOUSE BILL NO. 1182, H.D. 1

MARCH 16, 2017, 9:00 A.M.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Keith-Agaran, Vice Chair Rhoads and Members of the Committee,

H.B. 1182, H.D. 1 does not differ significantly from S.B. 1047, S.D. 1, previously heard by your Committee, in that it proposes that the actuary of the Employees' Retirement System (ERS) conduct an annual stress test of the System with regards to actuarial projections of the funded status for the ERS for each of the next thirty years based on "then-current" actuarial assumptions, including the assumed rate of return and projected lower rates of return. In addition, H.B. 1182, H.D. 1 would require that the actuary provide estimates of their actuarial projections with assumptions including extreme decreased investment returns and liabilities and costs based on the assumed discount rate and thirty-year treasury notes. The results of the stress test would be submitted as an annual report to the legislature twenty days prior to the convening of each regular session.

The ERS Board notes its concerns with H.B. 1182, H.D. 1 as: (1) the increased cost to provide these reports will total approximately \$12,500 annually, (2) it believes that the information being requested is largely already made available for the Legislature's consideration and that (3) any additional report needed may be incorporated into our annual actuarial report.

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



Employees' Retirement System
of the State of Hawaii



The Senate Committee on Judiciary and Labor
Thursday, March 16, 2017
9:00 AM, Conference Room 016

RE: HB 1182, HD1, Relating to Employees' Retirement System

Attention: Chair Gilbert Keith-Agaran, Vice Chair Karl Rhoads and
Members of the Committee

As per your request to focus our testimony on the differences if any between the House and Senate measures, the University of Hawaii Professional Assembly (UHPA) finds no differences between the **HB 1182, HD1 and SB 1047, SD1** that previously passed this committee but failed to crossover to the House.

UHPA continues to request **support for the intent of HB 1182, HD1**, requiring the Employees' Retirement System (ERS) actuary to perform annual stress tests of the system and the ERS Board to submit annual reports of the tests to the legislature as we previously testified.

Due to market indicators nationally, the ERS Board had previously taken a responsible approach by slowly lowering the assumed rate of return 50 basis points over a five year period. However, the recent decision by the ERS Board to reduce the assumed rate of return 50 basis points all at once has caused a great deal of anxiety for beneficiaries and the public as a whole. That one action by the ERS Board immediately increased the unfunded liability by \$1.7 Billion, and has statutorily forced the legislature to review the required employer contributions. When actions by the ERS Board have statewide fiscal implications, additional oversight may be required to ensure the beneficiaries have confidence their interests are being addressed.

Requiring the ERS actuary to perform an annual stress test and report its findings to the legislature will provide a level of transparency that is currently not in place and ensure that the decisions of the ERS Board are not made in a vacuum since the decision to reduce the assumed rate has statewide implications.

UHPA supports the intent of HB 1182, HD1.

Respectfully submitted,

A handwritten signature in black ink that reads "Kristeen Hanselman".

Kristeen Hanselman
Executive Director

University of Hawaii
Professional Assembly