

HB32

RELATING TO THE EMPLOYEES'
RETIREMENT SYSTEM.

LAB, FIN

HB32



Submit Testimony

Measure Title: RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.
Report Title: ERS; Investment Yield Rate Assumption; Legislature
Description: Requires the investment yield rate assumption approved by the Board of Trustees of the ERS to be further approved by the legislature prior to its use in computing benefits.
Companion:
Package: None
Current Referral: LAB, FIN
Introducer(s): CHOY

<u>Sort by Date</u>		Status Text
1/18/2017	H	Pending introduction.
1/19/2017	H	Pass First Reading
1/23/2017	H	Referred to LAB, FIN, referral sheet 1
2/13/2017	H	Bill scheduled to be heard by LAB on Thursday, 02-16-17 10:00AM in House conference room 309.

S = Senate | **H** = House | **D** = Data Systems | **\$** = Appropriation measure | **ConAm** = Constitutional Amendment
Some of the above items require Adobe Acrobat Reader. Please visit [Adobe's download page](#) for detailed instructions.

A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. Section 88-90.5, Hawaii Revised Statutes, is
2 amended to read as follows:

3 "§88-90.5 Actuarial assumptions. (a) Notwithstanding any
4 provision in this chapter to the contrary, the board may approve
5 the effect of the post retirement allowance under section 88-90,
6 or of any other mandatory fixed scheduled increase in the
7 benefits payable under part II, VII, or VIII, as an actuarial
8 assumption for the purpose of determining the value of the
9 options available under sections 88-83, 88-283, and 88-333.

10 (b) Subject to the recommendation of the actuary appointed
11 under section 88-29, the board may adopt, by motion at any duly
12 noticed meeting of the board, actuarial tables, factors, and
13 assumptions for the purposes of parts II, VII, and VIII. The
14 tables, factors, and assumptions that are used to compute
15 benefits shall be in writing and certified by the executive
16 director.



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1 (c) The investment yield rate assumption approved by the
2 board under subsection (b) may not be used to compute benefits
3 until:

4 (1) The board submits a resolution to the legislature that
5 specifies the assumption and the rationale used for
6 that assumption; and

7 (2) The legislature approves of that assumption through
8 the adoption of a concurrent resolution.

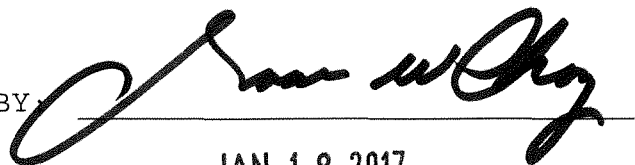
9 An investment yield rate established pursuant to this subsection
10 shall remain in effect for at least three years from the date of
11 legislative approval pursuant to paragraph (2)."

12 SECTION 2. New statutory material is underscored.

13 SECTION 3. This Act shall take effect on July 1, 2017.

14

INTRODUCED BY



JAN 18 2017



H.B. NO. 32

Report Title:

ERS; Investment Yield Rate Assumption; Legislature

Description:

Requires the investment yield rate assumption approved by the Board of Trustees of the ERS to be further approved by the legislature prior to its use in computing benefits.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.



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 HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON

HOUSE BILL NO. 32

FEBRUARY 16, 2017, 10:00 A.M.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Johanson, Vice Chair Holt and Members of the Committee,

H.B. 32 proposes to amend section 88-90.5, Hawaii Revised Statutes (HRS), to require that the investment yield rate or Assumed Investment Returns (AIR) of the Employees' Retirement System (ERS), be approved by concurrent resolution of the legislature prior to the investment yield rate assumption's use in computing benefits. The bill would further require that the investment yield rate remain in effect for "at least three years from the date of legislative approval." Presently, the setting of the AIR assumption is delegated to the Board of Trustees.

The ERS Board of Trustees opposes this measure as it would directly limit the Board from exercising its fiduciary responsibility to the retirement system, its members and beneficiaries.

The ERS Board of Trustees has the statutory authority to adopt actuarial tables, factors, and assumptions for the purposes of parts II, VII, and VIII of chapter 88, HRS. Section 88-90.5, HRS. These purposes include the annual valuation of the assets and liabilities of the ERS and the computation of benefits paid to retirees and other beneficiaries of the ERS. The actuarial tables, factors and assumptions are based on recommendations by the ERS actuary as part of the actuarial investigation of the experience of the ERS (the Experience Study) that is required by statute to be made at least once in each five-year period. The most recent Experience Study was made as of June 30, 2015, and presented to the ERS Board of Trustees at its July 2016 meeting. The AIR assumption is one of a number of integrated assumptions that are developed, adopted, and employed based on, the actuary's recommendations as derived from



Employees' Retirement System
of the State of Hawaii

the Experience Study. Other assumptions used for the purposes of chapter 88 include factors such as: inflation, mortality rates for members, retirees and beneficiaries, wage growth, retirement, termination and disability patterns. Decisions related to changes in the actuarial assumptions are made only after careful consideration by the ERS Board of the findings of the Experience Study and as supplemented by observations and recommendations of our actuary and other investment industry professionals. The ERS Board of Trustees adopted the current AIR assumption at its December 2016 meeting, following an in-depth review of the five year experience study and the annual valuation of the assets and liabilities of the ERS as of June 30, 2016.

The AIR assumption is not used for the purpose of determining a member's base benefit or "maximum allowance." This maximum allowance is calculated solely by use of the plan's defined formula which does not include an investment yield component. The AIR assumption is used to calculate so-called survivor benefits to a member's joint annuitant or surviving beneficiary.

The AIR assumption is a key component in calculating the equivalency of a retiree's benefits if the retiree selects a retirement option other than a full lifetime benefit of the maximum allowance. Under the maximum allowance, the retiree receives a monthly benefit for life. Upon the retiree's death, the retiree's survivor does not receive any ERS benefits. However, if, for example, a retiree selects a retirement option that provides a refund of the retiree's contributions, with an annuity for the life of the retiree and, upon the retiree's death, an annuity for the life of the retiree's survivor-beneficiary, various actuarial assumptions, including a discount rate at or close to the AIR assumption and the life expectancies of the retiree and the retiree's survivor beneficiary, are necessary to insure that the sums paid to the retiree and the retiree's survivor-beneficiary are the actuarial equivalent of the sums that would have been paid to the retiree during the retiree's life under the maximum allowance.

If the ERS Board of Trustees is unable to fully exercise its authority to set the AIR assumption for purposes of calculating member benefit, it will be hampered in performing its duty to provide benefits that are the actuarial equivalent of a member's maximum allowance.

More important than this technical limitation resulting from the proposed bill is the understanding that the AIR assumption is a mere tool to forecast the plan's assets and liabilities. While it is true the assumption is used to develop appropriate contribution rates, the establishment, level and timing of required contributions is the sole decision of the legislature and remains so.

The ERS Board's continuing responsibility is to assess the plan's assets and liabilities and to oversee the creation of an investment program designed to fund those liabilities within risk parameters appropriate for our public pension fund. The AIR assumption is not only a forecast of expected future capital market returns, it is a direct reflection of the anticipated sector returns of each of our specific portfolio components.

This analysis is led by our actuary, but is supplemented and validated by our investment consultants, economist and investment managers. The ERS Board is uniquely prepared, trained and positioned to select the AIR assumption in consideration of the foregoing factors and the financial condition of the plan.

A review of the largest pension plans in the nation shows that with rare exceptions, the decision as to the appropriate AIR assumption resides with the fund's governing board. Any legislatively imposed delay in the adoption of our AIR assumption may result in unintended consequences and will not serve the best interest of our members and their beneficiaries. Further, it will constrain the board's fiduciary obligation to make its decisions with that responsibility as primary.

We appreciate the opportunity to testify.

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Late Testimony