

Testimony with Comments on SB1047

Relating to the Employees' Retirement System

Presented to the Committee on Judiciary and Labor for the Public Hearing 9 a.m.
Tuesday, February 7, 2017, in Conference Room ~~2010~~

Chair Keith-Agaran, vice chair Rhoads and members of the committee:

I'm David Rolf, a long time resident in the state of Hawaii, and occasionally a commenter on matters relating to state revenues.

The underfunded Employee Retirement System issue is key part of what some call "sophisticated state failure." Business leaders have offered some solutions. The use of new technology to modernize government processes has application to this issue.

Please see below.

"Sophisticated state failure," is the phrase coined by Jan Techau of Carnegie Europe.

Techau presages the crackup of the Western model of governance because retirement systems, premised on workforces growing faster than retired populations, are helpless to adjust when the opposite is true.

By my calculations, the really bad news is predicted to come to Hawaii at 10 a.m. March 15, 2023—a short 7 years from now.

Please see the below information.

EMPLOYEES' RETIREMENT SYSTEM

NEST EGG SHORTFALL TOPS \$12 BILLION

TRACKING THE MONEY
The state Employees' Retirement System pension fund, which provides retirement, disability and survivor benefits to nearly 1.2 million state, county and city employees, is underfunded.

UNFUNDED LIABILITY
Pension plan's shortfall for benefits to be covered and future financial obligations.

FUNDING PERIOD IN YEARS
Number of years to the pension plan to become 100 percent funded.

FUNDED RATIO
Percent that the pension plan is funded.

OUT OF EMPLOYER POCKETS
To make up shortfall, the pension plan asks employers to contribute an additional \$30 million per year starting July 1.

Total: **\$1.14B** up from **\$757M**

TIGERS ROAR
Clemson claus back to people No. 1 Auburn, 35-31

Extra security sought as medical pot taxes are expected in cash

2 protests against Trump policies staged in Honolulu

City officials propose \$2.2B administration increase for nonresident voters

The pension plan will seek \$365 million more annually to make up the difference

The pension plan is only 54.7 percent funded compared with 62.2 percent funded a year ago.

The pension plan now needs an additional \$30 million a year from taxpayers to make up for the shortfall, according to ERS Executive Director Thomas Williams, who took over the position in December 2015. With that additional revenue, legislators would be paying \$1.4 billion a year to help fund the pension plan, which provides for retirement, disability and survivor benefits to more than 1.2 million active, retired and inactive state and county employees.

"This is going to be a big bill to swallow," ERS board member Clifford Matthews said Monday.

The state Employees' Retirement System annual fund required substantially from last year's \$9.77 billion, and

The state law department needs a security check, arrested for weapons and drug possession

Mayor's to sell illegal water bottles to law, and Hawaii's been been reduced to an even dispiriting as customers

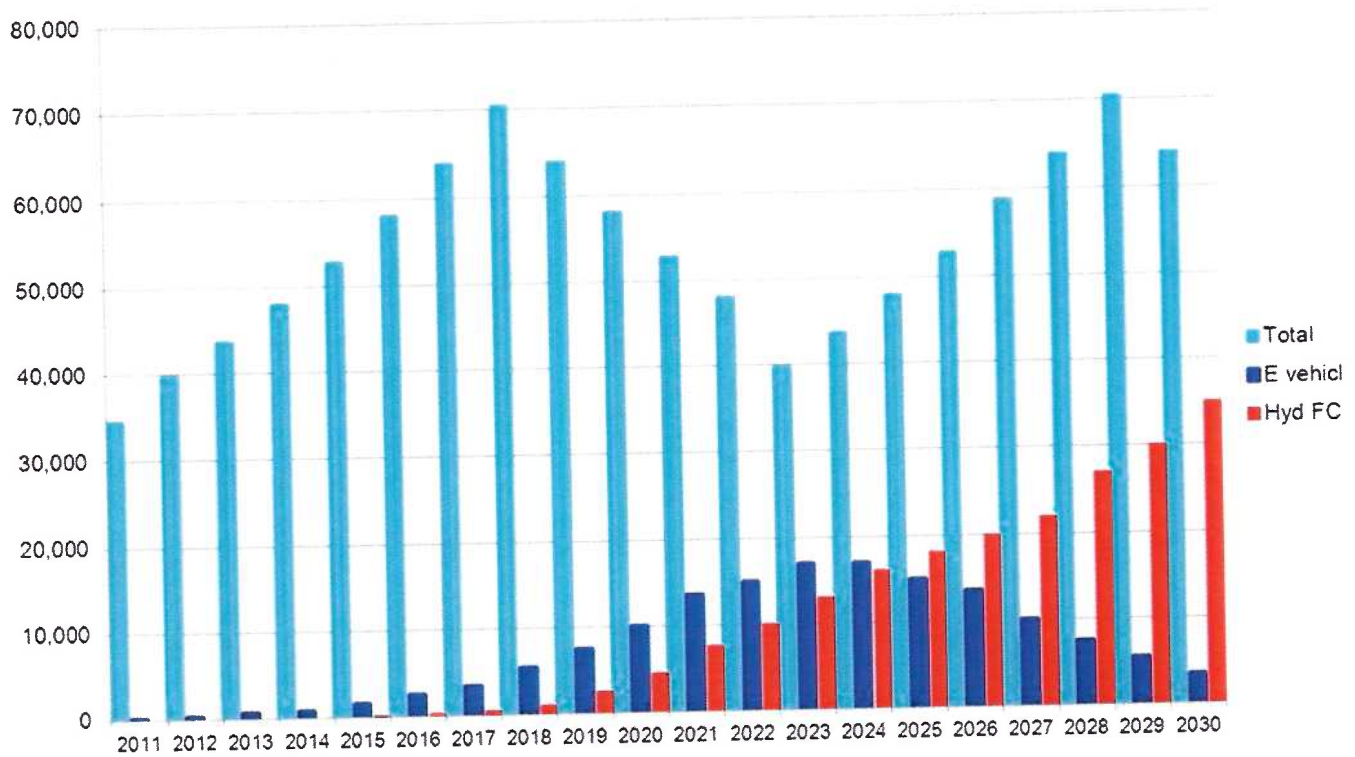
Malibu's Federal, spokeswoman for the state Department of Taxation, said the cash tax payments from departments might include both state taxes and payments for items such as payroll withholdings.

"We don't know if they're paying their employees in cash and they're just having their deposits

Wall Street Journal columnist recently wrote on the auto emissions crackup and provided a succinct and startling insight. He wrote, *"...multiply the emission scandal by many thousands and you have the crackup of the Western model of governance ...retirement systems, premised on workforces growing faster than retired populations, are helpless to adjust when the opposite is true.*

In Hawaii, it's like a Pacific version of the ancient pharaoh's dream. The fat years are followed by the lean ones.

New car sales (registrations) have, since records have been kept, followed a pattern in Hawaii that resembles San Francisco's Golden Gate Bridge.



The predictive graphic, which was produced in 2008 and has proven to be surprisingly accurate.

Since new car sales mirror the performance of the state's economy the graphic has proven a useful tool for planning.

I overlaid Mr. Jenkins' column's statement about the failure of retirement systems on the Hawaii graph and saw the pending collapse of the state employee retirement system here in 2023.

The retirement payment outlays will eventually exceed the income.

This perfect storm now appears on the radar. I might as well use the graph to call the day, March 15, when it will all become apparent--The Ides of March, 2023.

Another graphic is helpful.

Some states retirement fund managers have barely been able to achieve 1% returns this past year and don't see any path to 7.5% without unauthorized levels of risk.

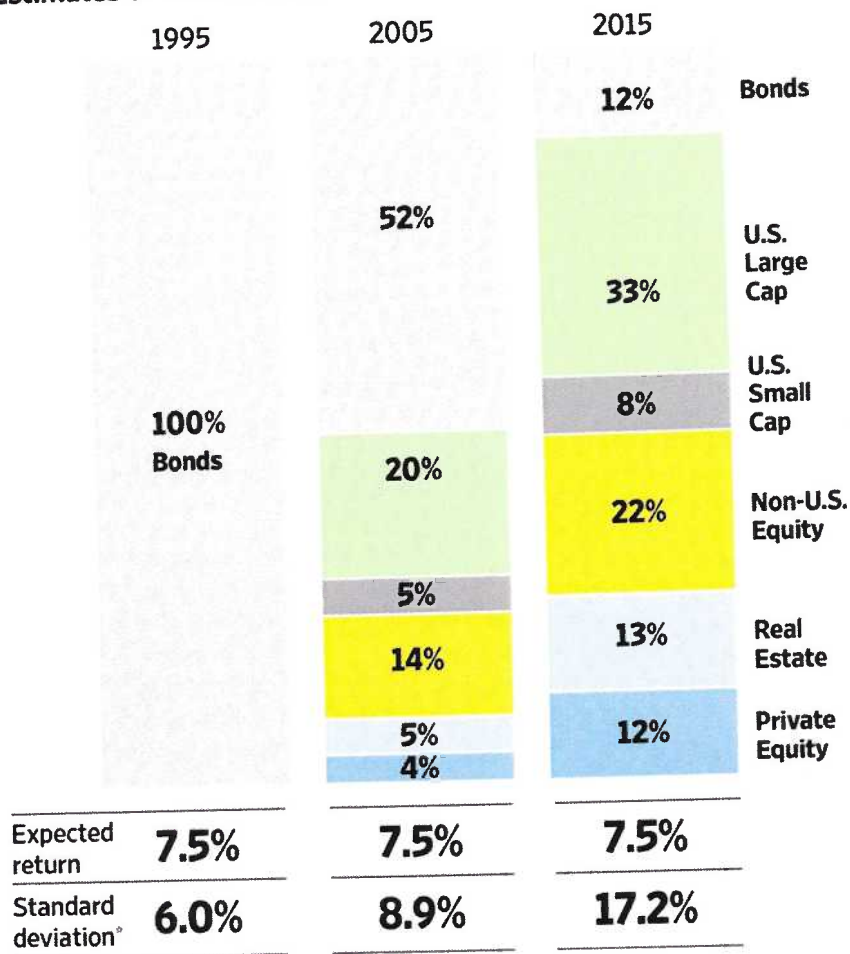
What does this mean for a state like Hawaii, which has covered less than 60% of its

employee retirement fund's future needs?

Rolling the Dice

Investors grappling with lower interest rates have to take bigger risks if they want to equal returns of two decades ago.

Estimates of what investors needed to earn 7.5%



*Likely amount by which returns could vary

“Sophisticated state failure,” is the phrase Jenkins cited in his column, noting that it was coined by Jan Techau of Carnegie Europe.

Hawaii is in some kind of straitjacket.

Hawaii’s governor David Ige, is being pragmatic, however. He is proposing to tuck away some of Hawaii’s \$6.5 billion state tax revenue in the coming years to head the problem off at the pass. It will be hard.

Since U.S. states cannot declare bankruptcy, our state taxes would have to go up dramatically to meet the retirement system obligations, and Hawaii's taxes are already some of the highest in the nation.

The bottom of the economy would fall out like a wet sack of garbage being taken to the curb.

Thanks for the warning Mr. Jenkins.

Solutions, through efficiencies are available.

David H. Rolf

Mililani