LATE TESTIMONY

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 2016

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

UNFUNDED LIABILITY

$12.44B

$8.77B

FUNDING PERIOD IN YEARS

66

26

FUNDED RATIO

54.7%

62.2%

OUT OF TAXPAYER POCKETS

Total $1.14B

up from $757M

The pension plan will seek $385 million more annually to make up the difference

By Dave Segal

The shortfall in Hawaii's public employees pension fund mushroomed to $12.44 billion in fiscal 2016, setting the stage for more finger-pointing in the Legislature and dealing a financial blow to taxpayers who will have to dig deep to pay for it.

"This is going to be a big pill to swallow," ERS board member Colbert Matsumoto said Monday.

Please see ERS, A5

TIGERS ROAR

Clemson claws back to topple No. 1 Alabama, 35-31

SPORTS / C1

2 protests against Trump policies staged in Honolulu

LOCAL / B1

City officials propose $2 200 admission increase for nonresident visitors

LOCAL / B1

Extra security sought as medical pot taxes are expected in cash

By Kevin Dayton

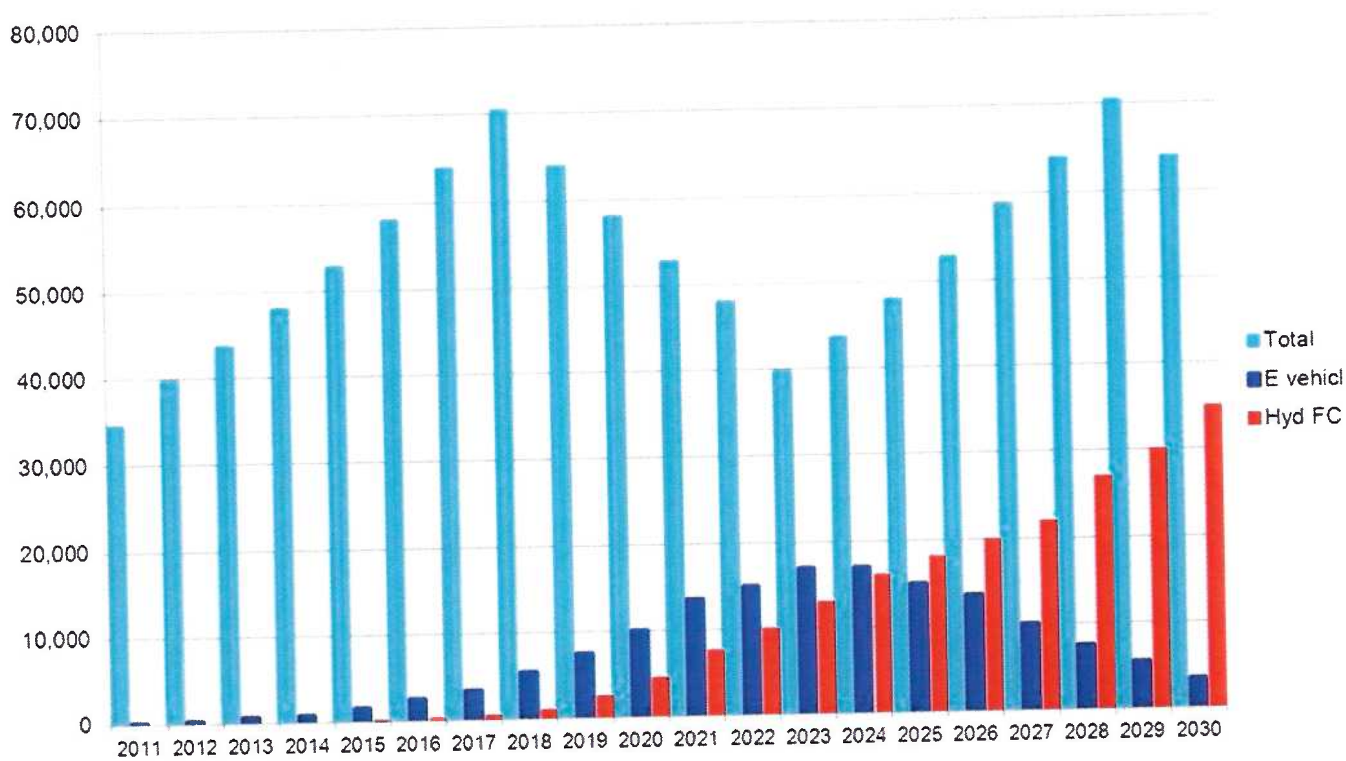
The state tax department needs extra security guards, armored car services and new surveillance equipment to prepare for a surge in cash payments to cover the taxes paid to the state for medical marijuana sales.

Please see SECURITY, A5

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.

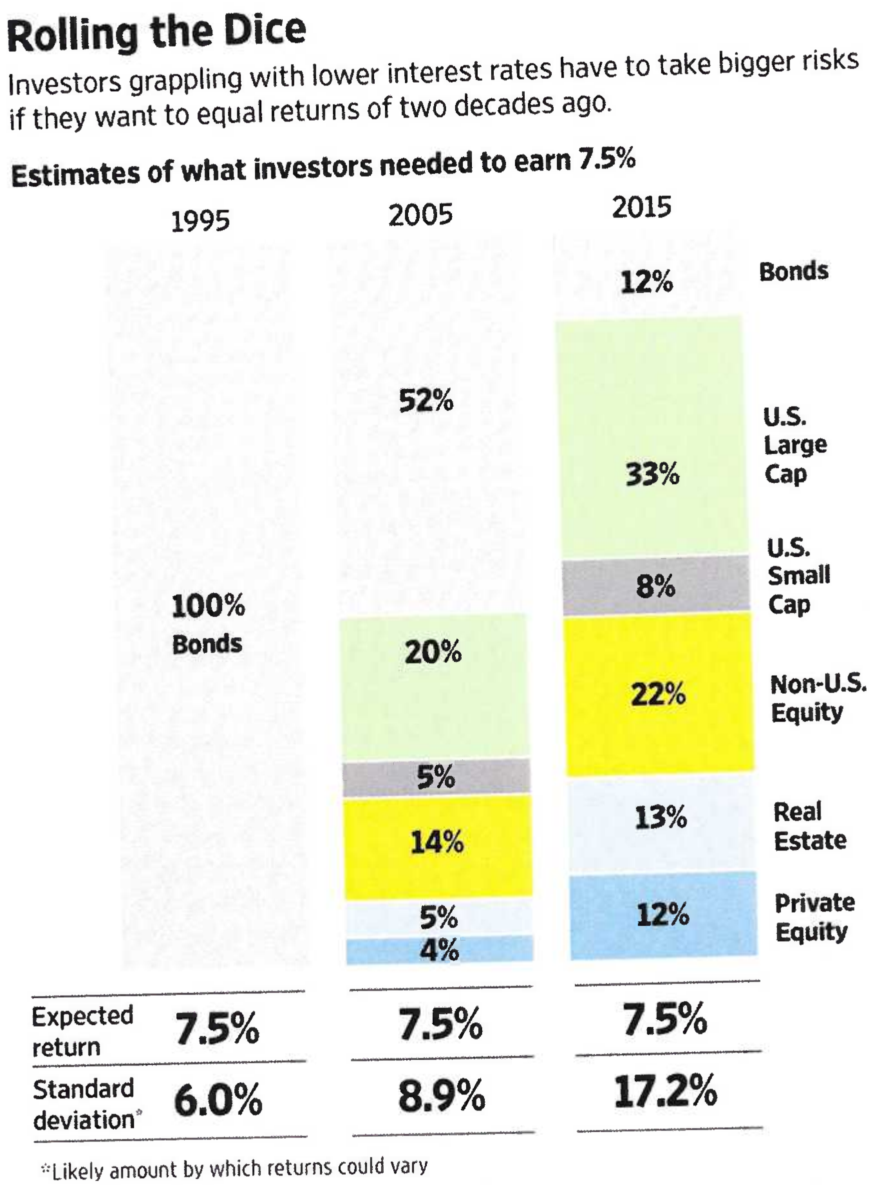
The retirement payment outlays will eventually exceed the income.

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?



"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