

SB 936, SD2

RELATING TO THE EMPLOYEES'
RETIREMENT SYSTEM.

LAB, FIN

SB936 SD2



Submit Testimony

Measure Title: RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

Report Title: Employees' Retirement System

Description: Extends benefit finalization period for December 31 retirements; changes interest rate for late benefit finalizations; extends deadline for employer payments under section 88-100, Hawaii Revised Statutes; allows delegation of certain disability retirement and service connected death benefit approval functions. Takes effect 1/7/2059. (SD1)

Companion: [HB1070](#)

Package: Governor

Current Referral: LAB, FIN

Introducer(s): KOUCHI (Introduced by request of another party)

<u>Sort by Date</u>		Status Text
1/25/2017	S	Introduced.
1/25/2017	S	Passed First Reading.
1/25/2017	S	Referred to JDL, WAM.
2/9/2017	S	The committee(s) on JDL has scheduled a public hearing on 02-14-17 9:00AM in conference room 016.
2/14/2017	S	The committee(s) on JDL recommend(s) that the measure be PASSED, WITH AMENDMENTS. The votes in JDL were as follows: 4 Aye(s): Senator(s) Keith-Agaran, K. Rhoads, Kim, L. Thielen; Aye(s) with reservations: none ; 0 No(es): none; and 1 Excused: Senator(s) Gabbard.
2/17/2017	S	Reported from JDL (Stand. Com. Rep. No. 433) with recommendation of passage on Second Reading, as amended (SD 1) and referral to WAM.
2/17/2017	S	Report adopted; Passed Second Reading, as amended (SD 1) and referred to WAM.

2/17/2017	S	The committee(s) on WAM has scheduled a public hearing on 02-22-17 9:30AM in conference room 211.
2/22/2017	S	The committee(s) on WAM recommend(s) that the measure be PASSED, WITH AMENDMENTS. The votes in WAM were as follows: 10 Aye(s): Senator(s) Tokuda, Dela Cruz, English, Galuteria, Harimoto, Inouye, Riviere, Shimabukuro, Taniguchi, Wakai; Aye(s) with reservations: none ; 0 No(es): none; and 1 Excused: Senator(s) K. Kahele.
3/3/2017	S	Reported from WAM (Stand. Com. Rep. No. 772) with recommendation of passage on Third Reading, as amended (SD 2).
3/3/2017	S	48 Hrs. Notice 03-07-17.
3/7/2017	S	Report adopted; Passed Third Reading, as amended (SD 2). Ayes, 25; Aye(s) with reservations: none . Noes, 0 (none). Excused, 0 (none). Transmitted to House.
3/7/2017	H	Received from Senate (Sen. Com. No. 299) in amended form (SD 2).
3/9/2017	H	Pass First Reading
3/9/2017	H	Referred to LAB, FIN, referral sheet 27
3/13/2017	H	Bill scheduled to be heard by LAB on Thursday, 03-16-17 9:00AM in House conference room 309.

A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

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

1 PART I

2 SECTION 1. Section 88-74.5, Hawaii Revised Statutes, is
3 amended by amending subsection (a) to read as follows:

4 "(a) The system shall finalize a retirant's pension
5 benefit within six calendar months following the month of the
6 retirant's retirement~~[7]~~ when the effective date of retirement
7 is the first day of the month. When the effective date of
8 retirement date is December 31, the system shall finalize a
9 retirant's pension benefit within seven calendar months
10 following the month of the retirant's retirement. For pension
11 benefits finalized after the sixth calendar month following the
12 month of the retirant's retirement~~[7]~~ when the effective date of
13 retirement is on the first day of the month, or the seventh
14 calendar month following the month of the retirant's retirement
15 when the effective date of retirement is December 31, an
16 interest payment amounting to [~~four and one half~~] _____ per
17 cent per annum shall be paid to the retirant. Interest shall be



1 calculated on the difference between the amount the retirant is
2 entitled to receive from the retirant's retirement date up to
3 the day the payment is made and the amount the retirant was
4 paid, including any refund of member contributions.

5 Beginning January 1, 2004, or the first day of the seventh
6 calendar month following the month of retirement [~~7~~] when the
7 effective date of retirement is on the first day of the month,
8 or the first day of the eighth calendar month following the
9 month of retirement when the effective date of retirement is
10 December 31, whichever is [~~later,~~] the latest, interest payments
11 calculated as simple interest shall be prorated up to the date
12 payment is made; provided that any pension adjustment made after
13 the retirant's pension has once been finalized shall not be
14 subject to any interest payment.

15 The system shall finalize ordinary and service-connected
16 disability retirements within six calendar months following the
17 month that the member's retirement is approved by the board or
18 the actual retirement date specified by the member, whichever is
19 later."

20 SECTION 2. Section 88-100, Hawaii Revised Statutes, is
21 amended by amending subsection (e) to read as follows:



1 "(e) The additional contributions required by this section
2 shall be payable in a lump sum [~~in the~~] within two fiscal [~~year~~]
3 years following the fiscal year in which the employee or former
4 employee retired; provided that, if the additional contributions
5 required for the employees or former employees who retire in a
6 fiscal year are greater than ten per cent of the employer's
7 contributions (excluding the additional contributions) to the
8 pension accumulation fund for that fiscal year, the employer may
9 pay the additional contributions over a period of three fiscal
10 years in installments equal to no less than one-third of the
11 original amount of the required additional contributions, plus
12 interest on the unpaid balance, commencing on the first day of
13 the second fiscal year following the retirement of the employees
14 or former employees, at an annual rate equal to the investment
15 yield rate assumption for actuarial valuations of the system."

16 PART II

17 SECTION 3. Section 88-75, Hawaii Revised Statutes, is
18 amended to read as follows:

19 "**§88-75 Ordinary disability retirement.** (a) [~~Upon~~] Under
20 rules the board of trustees may adopt, upon application of a
21 member in service or on leave without pay, or the person



1 appointed by the family court as guardian of an incapacitated
2 member, any member who has ten or more years of credited service
3 shall be retired by the [~~board of trustees~~] system on an
4 ordinary disability retirement allowance if the medical board[~~7~~]
5 or other entity designated by the board of trustees, after a
6 medical examination of the member, certifies that:

7 (1) The member is mentally or physically incapacitated for
8 the further performance of duty at the time of
9 application;

10 (2) The incapacity is likely to be permanent; and

11 (3) The member should be retired.

12 (b) Upon approval by the [~~board~~]₇] system, the member shall
13 be eligible to receive an ordinary disability retirement benefit
14 no earlier than thirty days from the date the application was
15 filed or the date the member terminated service, whichever is
16 later. Retirement shall be effective on the first day of a
17 month, except for the month of December when retirement on the
18 first or last day of the month shall be allowed. A member whose
19 application for an ordinary disability retirement allowance is
20 approved by the [~~board~~] system while the member is still in
21 service may terminate service and retire at any time following



1 the approval; provided that retirement shall become effective on
2 the first day of the month following the month the applicant
3 terminates employment or goes off the payroll, except for the
4 month of December when retirement on the first or last day of
5 the month shall be allowed."

6 SECTION 4. Section 88-79, Hawaii Revised Statutes, is
7 amended as follows:

8 1. By amending subsection (a) to read:

9 "(a) ~~Upon~~ Under rules the board of trustees may adopt,
10 upon application of a member, or the person appointed by the
11 family court as guardian of an incapacitated member, any member
12 who has been permanently incapacitated for duty as the natural
13 and proximate result of an accident occurring while in the
14 actual performance of duty at some definite time and place, or
15 as the cumulative result of some occupational hazard, through no
16 wilful negligence on the member's part, may be retired by the
17 ~~board~~ system for service-connected disability; provided that:

18 (1) In the case of an accident occurring after July 1,
19 1963, the employer shall file with the system a copy
20 of the employer's report of the accident submitted to
21 the director of labor and industrial relations;



1 (2) An application for retirement is filed with the system
2 within two years of the date of the accident, or the
3 date upon which workers' compensation benefits cease,
4 whichever is later;

5 (3) Certification is made by the head of the agency in
6 which the member is employed, stating the time, place,
7 and conditions of the service performed by the member
8 resulting in the member's disability and that the
9 disability was not the result of wilful negligence on
10 the part of the member; and

11 (4) The medical board or other entity designated by the
12 board of trustees certifies that the member is
13 incapacitated for the further performance of duty at
14 the time of application and that the member's
15 incapacity is likely to be permanent."

16 2. By amending subsections (c), (d), and (e) to read:

17 "(c) The [~~board~~] system may waive strict compliance with
18 the time limits within which a report of the accident and an
19 application for service-connected disability retirement must be
20 filed with the [~~board~~] system if it is satisfied that the
21 failure to file within the time limited by law was due to



1 ignorance of fact or law, inability, or to the fraud,
2 misrepresentation, or deceit of any person, or because the
3 applicant was undergoing treatment for the disability or was
4 receiving vocational rehabilitation services occasioned by the
5 disability.

6 (d) The [board] system may determine whether or not the
7 disability is the result of an accident occurring while in the
8 actual performance of duty at some definite time and place and
9 that the disability was not the result of wilful negligence on
10 the part of the member. The [board] system may accept as
11 conclusive:

12 (1) The certification made by the head of the agency in
13 which the member is employed; or

14 (2) A finding to this effect by the medical board[-] or
15 other entity designated by the board of trustees.

16 (e) Upon approval by the [board,] system, the member shall
17 be eligible to receive a service-connected disability retirement
18 benefit after the member has terminated service. Retirement
19 shall become effective on the first day of a month, except for
20 the month of December when retirement on the first or last day
21 of the month shall be allowed."



1 SECTION 5. Section 88-85, Hawaii Revised Statutes, is
2 amended by amending subsection (a) to read as follows:

3 "(a) In the case of an accidental death as determined by
4 the [~~board~~] system pursuant to section 88-85.5, there shall be
5 paid to the member's designated beneficiary or to the member's
6 estate the amount of the member's accumulated contributions and
7 there shall be paid in lieu of the ordinary death benefit
8 payable under section 88-84, a pension of one-half of the
9 average final compensation of the member:

- 10 (1) To the surviving spouse or reciprocal beneficiary of
11 the member to continue until the surviving spouse or
12 reciprocal beneficiary remarries, marries, or enters
13 into a new reciprocal beneficiary relationship;
- 14 (2) If there be no surviving spouse or reciprocal
15 beneficiary, or if the surviving spouse or reciprocal
16 beneficiary dies or remarries, marries, or enters into
17 a new reciprocal beneficiary relationship before any
18 child of the deceased member shall have attained the
19 age of eighteen years, then to the deceased member's
20 child or children under the age of eighteen, divided
21 in the manner as the [~~board~~] system in its discretion



1 shall determine, to continue as a joint and survivor
2 pension of one-half of the deceased member's final
3 compensation until every child dies, or attains the
4 age of eighteen; or

5 (3) If there is no surviving spouse or reciprocal
6 beneficiary or child under the age of eighteen years
7 surviving the deceased member, then to the deceased
8 member's dependent father or dependent mother, as the
9 deceased member shall have nominated by written
10 designation duly acknowledged and filed with the
11 [~~board,~~] system, or if there is no nomination, then to
12 the deceased member's dependent father or to the
13 deceased member's dependent mother as the [~~board,~~]
14 system, in its discretion, shall direct to continue
15 for life.

16 The pension shall be effective on the first day of the month
17 following the member's death, except for the month of December,
18 when benefits shall be effective on the first or last day of the
19 month."

20 SECTION 6. Section 88-85.5, Hawaii Revised Statutes, is
21 amended to read as follows:



1 "§88-85.5 Applications for accidental death benefits;
2 approval by the [~~board.~~] system. (a) [~~An~~] Under rules the
3 board of trustees may adopt, an application for service-
4 connected accidental death benefits may be filed with the system
5 by or on behalf of the claimant pursuant to section 88-85, 88-
6 286, or 88-339, on a form provided by the system. The
7 application shall be filed no later than three years from the
8 date of the member's death.

9 (b) After the claimant files an application for service-
10 connected accidental death benefits, the system shall obtain the
11 following:

- 12 (1) A copy of the employer's report of the accident
13 submitted by the employer to the department of labor
14 and industrial relations, workers' compensation
15 division, and other reports relating to the accident;
- 16 (2) A certified statement from the head of the department
17 in which the deceased member was employed, stating the
18 date, time, and place of the accident, and the nature
19 of the service being performed when the accident
20 occurred. The statement shall also include an opinion



1 as to whether or not the accident was the result of
2 wilful negligence on the deceased member's part;

3 (3) A copy of the latest position description of the
4 deceased member's duties and responsibilities;

5 (4) A certified copy of the death certificate; and

6 (5) A copy of an autopsy report, if performed.

7 (c) Upon the system's receipt of the application and
8 documents specified in subsection (b), the medical board or
9 other entity designated by the board of trustees shall determine
10 and certify to the [~~board~~] system whether the member's death was
11 an accidental death as defined in section 88-21.

12 (d) The [~~board~~] system may accept as conclusive as to
13 whether or not the member's death was caused by wilful
14 negligence on the part of the member:

15 (1) A certification made by the head of the agency in
16 which the member is employed; or

17 (2) A finding by the medical board[-] or other entity
18 designated by the board of trustees.

19 (e) After the medical board or other entity designated by
20 the board of trustees submits its certification to the system,
21 the [~~board~~] system shall approve or disapprove the application.



1 Upon approval of an application, benefits shall be paid as
2 provided in section 88-85, 88-286, or 88-339."

3 SECTION 7. Section 88-284, Hawaii Revised Statutes, is
4 amended by amending subsections (a) and (b) to read as follows:

5 "(a) [~~Upon~~] Under rules the board of trustees may adopt,
6 upon application of a member in service or on leave without pay,
7 or the person appointed by the family court as guardian of an
8 incapacitated member, any member who has ten or more years of
9 credited service shall be retired by the [~~board of trustees~~]
10 system on an ordinary disability retirement allowance if the
11 medical board[~~7~~] or other entity designated by the board of
12 trustees, after a medical examination of the member, certifies
13 that:

14 (1) The member is mentally or physically incapacitated for
15 the further performance of duty at the time of
16 application;

17 (2) The incapacity is likely to be permanent; and

18 (3) The member should be retired.

19 (b) Upon approval by the [~~board7~~] system, the member shall
20 be eligible to receive an ordinary disability retirement benefit
21 no earlier than thirty days from the date the application was



1 filed or the date the member terminated service, whichever is
2 later. Retirement shall be effective on the first day of a
3 month, except for the month of December when retirement on the
4 first or last day of the month shall be allowed. A member whose
5 application for an ordinary disability retirement allowance is
6 approved by the [~~board~~] system while the member is still in
7 service may terminate service and retire at any time following
8 the approval; provided that retirement shall become effective on
9 the first day of the month following the month the applicant
10 terminates employment or goes off the payroll, except for the
11 month of December when retirement on the first or last day of
12 the month shall be allowed."

13 SECTION 8. Section 88-286, Hawaii Revised Statutes, shall
14 be amended by amending subsection (c) to read as follows:

15 "(c) In the case of accidental death as determined by the
16 [~~board~~] system pursuant to section 88-85.5, the death benefit
17 shall be effective on the first day of the month following the
18 member's death, except for the month of December when retirement
19 on the first or last day of the month shall be allowed, as
20 follows:



- 1 (1) For the surviving spouse or reciprocal beneficiary, an
2 allowance equal to thirty per cent of the member's
3 average final compensation, payable until remarriage,
4 marriage, or upon entry into a new reciprocal
5 beneficiary relationship;
- 6 (2) If there is a surviving spouse or reciprocal
7 beneficiary, each child under the age of eighteen
8 shall receive an allowance equal to the greater of:
- 9 (A) Ten per cent of the member's accrued maximum
10 retirement allowance unreduced for age; provided
11 that the aggregate death benefits for all the
12 children under the age of eighteen shall not
13 exceed twenty per cent of the member's accrued
14 maximum retirement allowance unreduced for age;
15 or
- 16 (B) Three per cent of the member's average final
17 compensation; provided that the aggregate death
18 benefits for all the children under the age of
19 eighteen shall not exceed six per cent of the
20 member's average final compensation.



1 The death benefit under this paragraph shall be
2 payable to each child until the child attains age
3 eighteen; and

4 (3) If there is no surviving spouse or reciprocal
5 beneficiary, each child under the age of eighteen
6 shall receive an allowance equal to the greater of:

7 (A) Twenty per cent of the member's accrued maximum
8 retirement allowance unreduced for age; provided
9 that the aggregate death benefits for all the
10 children under the age of eighteen shall not
11 exceed forty per cent of the member's accrued
12 maximum retirement allowance unreduced for age;
13 or

14 (B) Six per cent of the member's average final
15 compensation; provided that the aggregate death
16 benefits for all the children under the age of
17 eighteen shall not exceed twelve per cent of the
18 member's average final compensation.

19 The death benefit under this paragraph shall be
20 payable to each child until the child attains age
21 eighteen."



1 SECTION 9. Section 88-334, Hawaii Revised Statutes, is
2 amended to read as follows:

3 "§88-334 Ordinary disability retirement. (a) [~~Upon~~
4 Under rules the board of trustees may adopt, upon application of
5 a class H member in service or on leave without pay, or the
6 person appointed by the family court as guardian of an
7 incapacitated member, any member who has ten or more years of
8 credited service shall be retired by the [~~board~~] system on an
9 ordinary disability retirement allowance if the medical board[~~7~~]
10 or other entity designated by the board of trustees, after a
11 medical examination of the member, certifies that:

- 12 (1) The member is mentally or physically incapacitated for
13 the further performance of duty at the time of
14 application;
- 15 (2) The incapacity is likely to be permanent; and
- 16 (3) The member should be retired.

17 (b) Upon approval by the [~~board,7~~] system, the member shall
18 be eligible to receive an ordinary disability retirement benefit
19 no earlier than thirty days from the date the application was
20 filed or the date the member terminated service, whichever is
21 later. Retirement shall be effective on the first day of a



1 month, except for the month of December when retirement on the
2 first or last day of the month shall be allowed. A member whose
3 application for an ordinary disability retirement allowance is
4 approved by the [~~board~~] system while the member is still in
5 service may terminate service and retire at any time following
6 the approval; provided that retirement shall become effective on
7 the first day of the month following the month the applicant
8 terminates employment or goes off the payroll, except for the
9 month of December when retirement on the first or last day of
10 the month shall be allowed."

11 SECTION 10. Section 88-336, Hawaii Revised Statutes, is
12 amended as follows:

13 1. By amending subsection (a) to read:

14 "(a) [~~Upon~~] Under rules the board of trustees may adopt,
15 upon application of a class H member, or the person appointed by
16 the family court as guardian of an incapacitated member, any
17 class H member who has been permanently incapacitated for duty
18 as the natural and proximate result of an accident occurring
19 while in the actual performance of duty at some definite time
20 and place, or as the cumulative result of some occupational
21 hazard, through no wilful negligence on the member's part, may



1 be retired by the [~~board~~] system for service-connected
2 disability; provided that:

- 3 (1) In the case of an accident occurring after July 1,
4 1963, the employer shall file with the system a copy
5 of the employer's report of the accident submitted to
6 the director of labor and industrial relations;
- 7 (2) An application for retirement is filed with the system
8 within two years of the date of the accident, or the
9 date upon which workers' compensation benefits cease,
10 whichever is later;
- 11 (3) Certification is made by the head of the agency in
12 which the member is employed, stating the time, place,
13 and conditions of the service performed by the member
14 resulting in the member's disability and that the
15 disability was not the result of wilful negligence on
16 the part of the member; and
- 17 (4) The medical board or other entity designated by the
18 board of trustees certifies that the member is
19 incapacitated for the further performance of duty at
20 the time of application and that the member's
21 incapacity is likely to be permanent."



1 2. By amending subsections (c), (d), and (e) to read:

2 "(c) The [~~board~~] system may waive strict compliance with
3 the time limits within which a report of the accident and an
4 application for service-connected disability retirement must be
5 filed with the [~~board~~] system if it is satisfied that the
6 failure to file within the time limited by law was due to
7 ignorance of fact or law, inability, or the fraud,
8 misrepresentation, or deceit of any person, or because the
9 applicant was undergoing treatment for the disability, or was
10 receiving vocational rehabilitation services occasioned by the
11 disability.

12 (d) The [~~board~~] system may determine whether the
13 disability is the result of an accident occurring while in the
14 actual performance of duty at some definite time and place and
15 that the disability was not the result of wilful negligence on
16 the part of the member. The [~~board~~] system may accept as
17 conclusive:

- 18 (1) The certification made by the head of the agency in
19 which the member is employed; or
20 (2) A finding to this effect by the medical board[-] or
21 other entity designated by the board of trustees.



1 (e) Upon approval by the [~~board,~~] system, the member shall
2 be eligible to receive a service-connected disability retirement
3 benefit after the member has terminated service. Retirement
4 shall be effective on the first day of a month, except for the
5 month of December when retirement on the first or last day of
6 the month shall be allowed."

7 SECTION 11. Section 88-339, Hawaii Revised Statutes, is
8 amended by amending subsection (a) to read as follows:

9 "(a) [~~In~~] Under rules the board of trustees may adopt, in
10 the case of an accidental death as determined by the [~~board~~]
11 system pursuant to section 88-85.5, there shall be paid to the
12 member's designated beneficiary or to the member's estate the
13 amount of the member's accumulated contributions and there shall
14 be paid in lieu of the ordinary death benefit payable under
15 section 88-338 a pension of one-half of the average final
16 compensation of the member:

17 (1) To the surviving spouse or reciprocal beneficiary of
18 the member to continue until the surviving spouse or
19 reciprocal beneficiary remarries, marries, or enters
20 into a new reciprocal beneficiary relationship;



- 1 (2) If there be no surviving spouse or reciprocal
2 beneficiary, or if the surviving spouse or reciprocal
3 beneficiary dies or remarries, marries, or enters into
4 a new reciprocal beneficiary relationship before any
5 child of the deceased member shall have attained the
6 age of eighteen years, then to the deceased member's
7 child or children under that age, divided in a manner
8 as the [~~board~~] system in its discretion shall
9 determine, to continue as a joint and survivor pension
10 of one-half of the deceased member's final
11 compensation until every child dies, or attains that
12 age; or
- 13 (3) If there is no surviving spouse or reciprocal
14 beneficiary and no child under the age of eighteen
15 years surviving the deceased member, then to the
16 deceased member's dependent father or dependent
17 mother, as the deceased member shall have nominated by
18 written designation duly acknowledged and filed with
19 the [~~board,~~] system, or if there is no nomination,
20 then to the deceased member's dependent father or to
21 the deceased member's dependent mother as the [~~board,~~]



1 system, in its discretion, shall direct to continue
2 for life.

3 The pension shall be effective on the first day of the month
4 following the member's death, except for the month of December,
5 when benefits shall be effective on the first or last day of the
6 month."

7 SECTION 12. Statutory material to be repealed is bracketed
8 and stricken. New statutory material is underscored.

9 SECTION 13. This Act shall take effect on January 7, 2059.



Report Title:

Employees' Retirement System

Description:

Extends benefit finalization period for December 31 retirements; changes interest rate for late benefit finalizations; extends deadline for employer payments under section 88-100, Hawaii Revised Statutes; allows delegation of certain disability retirement and service connected death benefit approval functions. Takes effect 1/7/2059. (SD1)

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
ON

SENATE BILL NO. 936, S.D. 2

MARCH 16, 2017, 9:00 A.M.
Room 309

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

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

S.B. 936, S.D. 2 would amend various sections in Chapter 88, HRS, related to the Employees' Retirement System of the State of Hawaii (ERS) to correct and make consistent finalized benefit adjustment periods, address employer concerns regarding payments for pension "spiking" and to improve the efficiency of processing disability and accidental death claims. This "housekeeping" measure would provide for the following:

(1) To correct the anomaly of the finalized retirement adjustment period for December 31 retirees to be consistent with the full six calendar month finalized adjustment period of members retiring on the first of the month and to adjust the interest rate on underpayments if benefits are not finalized within the six calendar month time-frame.

Under section 88-74.5, the ERS is required to finalize a retirant's pension benefit within six calendar months following the month of the retirant's retirement. After six calendar months, interest at 4.5% per annum is payable on the amount the retirant was underpaid prior to finalization of the retirant's retirement benefit. ERS members generally retire effective as of the first day of a month. The exception is the month of December in which members may retire on the 1st or the 31st. When a retirant retires on the first day of a month, the ERS has a full six month following the retirant's retirement in which to finalize the retirant's retirement benefit; however, when a retirant retires on December 31, the ERS only has five months in which to



Employees' Retirement System
of the State of Hawaii

finalize the retiree's retirement benefits because December, the month in which the retiree retired, is effectively lost. Approximately 30 percent of the retirements in any given year are on December 31. In 2015, 651 of the 2240 retirements became effective as of December 31. This bill would also adjust the interest rate payable on underpayments to a rate, determined by the ERS Board of Trustees, which would reflect current market conditions.

(2) To address employer concerns regarding the amount of time between when the employers are billed for additional retirement contributions (so called "spiking payments") due to their employees who retired with significant non-base pay increases and the due date of the payment.

Under section 88-100 employers are required to pay additional contributions to the ERS at the beginning of the fiscal year following the fiscal year in which an employee or former employee retires with significant non-base pay increases. This bill would allow the employers an additional fiscal year in which to budget for these additional contributions prior to making payment.

(3) To improve service provided to members and beneficiaries applying for disability retirement and accidental death benefits by reducing the direct administrative involvement of the Board of Trustees of the Employees' Retirement System (ERS) and allowing ERS staff to play a greater role in the process thereby reducing the time it takes to review, decide and communicate a decision. Also allows the Board of Trustees to have medical reviews of disability retirement and accidental death claims performed by a designated entity other than the ERS medical board.

Under sections 88-75, 88-79, 88-85, 88-85.5, 88-284, 88-286, 88-334, 88-336 and 88-339, disability retirement and accidental death claims are reviewed by the ERS medical board and recommendations are transmitted to the ERS board of trustees for approval. On average, claims for ordinary disability take six months or longer and claims for service-connected disability and accidental death may take two, three or more years to decide. This bill will allow the ERS staff an additional or alternative medical review entity to streamline the review, recommendation and approval process for disability and accidental death cases.

The Board of Trustees of the Employees' Retirement System strongly supports this legislation.

Thank you for this opportunity to provide testimony on S.B. 936, S.D. 2.

DAVID Y. IGE
GOVERNOR



THOMAS WILLIAMS
EXECUTIVE DIRECTOR

KANOE MARGOL
DEPUTY EXECUTIVE DIRECTOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

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

TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON

SENATE BILL NO. 936, S.D. 2

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

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

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

We are submitting this supplemental testimony to request an amendment to S.B. 936, S.D. 2 to amend Section 88-122, Hawaii Revised Statutes (HRS) to increase employer contributions by the State and counties to the Employees' Retirement System. Our proposed amendment is a version of HB 1061, HD1, which this committee considered and passed out earlier this session.

The Board of Trustees of the Employees' Retirement System strongly supports this legislation.

The contribution State and county agencies are required to make to the Employees' Retirement System of the State of Hawaii to meet obligations for retirement benefits are based on a percentage of payroll. Section 88-122, Hawaii Revised Statutes, provides that the contribution rates are subject to adjustment if the period required to amortize the unfunded accrued liability of the system exceeds thirty years. Based on the five-year actuarial experience review performed as of June 30, 2016, by the system's actuary pursuant to section 88-105, HRS, the actuary recommended changes to the actuarial assumptions used for the actuarial valuation of the system. The Board of Trustees of the System adopted the changes to the actuarial assumptions recommended by the actuary. Under the new actuarial assumptions as applied to the current contribution rates, the period required to amortize the unfunded accrued liability of the system will exceed thirty years. To remain under a funding period of thirty years, and if no



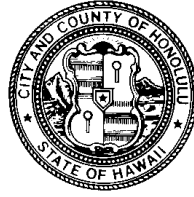
Employees' Retirement System
of the State of Hawaii

benefit changes are made, the actuary recommended several alternative phased-in increases in the employer contribution rate.

We are working with the Department of Budget and Finance on a draft proposal, which will be transmitted to this Committee by the Department.

Thank you for this opportunity to provide testimony on S.B. 936, S.D. 2.

KIRK CALDWELL
MAYOR



NELSON H. KOYANAGI, JR.
DIRECTOR

GARY T. KUOKAWA
DEPUTY DIRECTOR

**Testimony of
NELSON H. KOYANAGI, JR.
Director of Budget and Fiscal Services
City and County of Honolulu**

**Before the House Committee on
LABOR AND PUBLIC EMPLOYMENT
Thursday, March 16, 2017
9:00 a.m.
State Capitol, Conference Room 309**

**In consideration of
SENATE BILL 936, SD2
RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM**

The City and County of Honolulu (City) supports the provision in section 2 of Senate Bill 936, SD2, that allows employers to pay for the additional contributions required in HRS Section 88-100 within two fiscal years following the fiscal year in which the employee or former employee retired. This allows sufficient time for the City to budget for the additional contributions. Under current law, the City has received information on the amount of additional payments required after the payments were due, and after the budget for the fiscal year was set. The City takes no position on the remaining provisions of this measure.

Thank you for the opportunity to testify on Senate Bill 936, SD2.

SB 936, SD2
Late Testimony

DAVID Y. IGE
GOVERNOR



WESLEY K. MACHIDA
DIRECTOR

LAUREL A. JOHNSTON
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)

WRITTEN COMMENTS

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT
ON
SENATE BILL NO. 936, SD2



March 16, 2017
9:00 a.m.
Room 309

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Senate Bill No. 936, SD2, proposes various housekeeping amendments to extend benefit finalization period for December 31 retirements; change interest rate for late benefit finalizations; extend deadline for employer payments under section 88-100; and allow delegation of certain disability retirement and service connected death benefit approval functions.

The Department of Budget and Finance supports this measure to provide the ERS certain administrative efficiencies to better serve our beneficiaries.

The Department further requests this Committee consider inserting provisions of HB 1061, HD1, which incrementally increases the rates for employer contributions to the Employees' Retirement System to assure that State maintains a thirty-year schedule to amortize our unfunded liability. Without such adjustments, the Department is concerned about potential negative impact on our bond rating position, and we will fall further behind on our obligations. In response to the Council on Revenues revised revenue projections, we have adjusted our proposal, and have attached it for your consideration.

Thank you for your consideration of our comments.

PART XXX

SECTION XX. The legislature finds that on December 12, 2016, the board of trustees of the employees' retirement system adopted the recommendation of their actuary to change the assumptions used for required employer contribution rates based upon the actuary's assessment completed on June 30, 2016. Under these new assumptions, the period required to amortize the unfunded accrued liability of the employees' retirement system would increase from twenty-seven years to over thirty years. Pursuant to section 88-122, Hawaii Revised Statutes, contribution rates are subject to adjustment if the period required to amortize the unfunded liability exceeds thirty years. To maintain the thirty-year funding period, the actuary recommended increasing the employer contribution rates to:

- (1) 42.5 per cent for police officers, firefighters, and corrections officers; and
- (2) 24.75 per cent for all other employees.

Thus, the purpose of this Part is to incrementally increase the rates for employer contributions to the employees' retirement system to maintain the thirty-year funding period.

SECTION XX. Section 88-122, Hawaii Revised Statutes, is amended by amending subsection (e) as follows:

"(e) Commencing with fiscal year 2005-2006 and each subsequent fiscal year[~~7~~] until fiscal year 2007-2008, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on fifteen and three-fourths per cent of the member's compensation for police officers, firefighters, and corrections officers and thirteen and three-fourths per cent of the member's compensation for all other employees. Commencing with fiscal year 2008-2009 and each subsequent fiscal year until fiscal year 2011-2012, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on nineteen and seven-tenths per cent of the member's compensation for police officers, firefighters, and corrections officers and fifteen per cent of the member's compensation for all other employees. In fiscal year 2012-2013, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on twenty-two per cent of the member's compensation for police officers, firefighters, and corrections officers and fifteen and one-half per cent of the member's compensation for all other employees. In fiscal year 2013-2014, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on twenty-three per cent of the member's

compensation for police officers, firefighters, and corrections officers and sixteen per cent of the member's compensation for all other employees. In fiscal year 2014-2015, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on twenty-four per cent of the member's compensation for police officers, firefighters, and corrections officers and sixteen and one-half per cent of the member's compensation for all other employees. Commencing with fiscal year 2015-2016 [~~and each subsequent fiscal year,~~] until fiscal year 2016-2017, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on twenty-five per cent of the member's compensation for police officers, firefighters, and corrections officers and seventeen per cent of the member's compensation for all other employees. In fiscal year 2017-2018, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on twenty-eight per cent of the member's compensation for police officers, firefighters, and corrections officers and eighteen per cent of the member's compensation for all other employees. In fiscal year 2018-2019, the employer contributions for normal cost and accrued liability for each of the two groups in subsection (a) shall be based on thirty-one per cent of

the member's compensation for police officers, firefighters, and corrections officers and nineteen per cent of the member's compensation for all other employees. In fiscal year 2019-2020, the employer contributions for normal cost and accrued liability for each of the two groups in subsection (a) shall be based on thirty-six per cent of the member's compensation for police officers, firefighters, and corrections officers and twenty-two per cent of the member's compensation for all other employees. Commencing with fiscal year 2020-2021 and each subsequent fiscal year, the employer contributions for normal cost and accrued liability for each of the two groups in subsection (a) shall be based on forty-one per cent of the member's compensation for police officers, firefighters, and corrections officers and twenty-four per cent of the member's compensation for all other employees. The contribution rates shall amortize the total unfunded accrued liability of the entire plan over a period not to exceed thirty years.

The contribution rates shall be subject to adjustment:

- (1) If the actual period required to amortize the unfunded accrued liability exceeds thirty years;
- (2) If there is no unfunded accrued liability; or
- (3) Based on the actuarial investigation conducted in accordance with section 88-105."