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**STATE OF HAWAII**  
**EMPLOYEES' RETIREMENT SYSTEM**

TESTIMONY BY THOMAS WILLIAMS  
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TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR  
ON

SENATE BILL NO. 936

FEBRUARY 14, 2017, 9:00 A.M.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

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

S.B. 936 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 1<sup>st</sup> or the 31<sup>st</sup>. 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 finalize the retirant's retirement benefits because December, the month in which the retirant



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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 reduce the interest rate payable on underpayments closer to current market rates on deposit accounts.

(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 and an additional 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 supports this legislation.

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