

HB 1061

**RELATING TO EMPLOYER CONTRIBUTIONS
TO THE EMPLOYEES' RETIREMENT SYSTEM**

LAB, FIN

HB1061



Submit Testimony

Measure Title: RELATING TO EMPLOYER CONTRIBUTIONS TO THE EMPLOYEES' RETIREMENT SYSTEM.

Report Title: Employees' Retirement System; Employer Contribution Rates

Description: Sets new rates for employer contributions to the Employees' Retirement System.

Companion: [SB927](#)

Package: Governor

Current Referral: LAB, FIN

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

Sort by Date		Status Text
1/23/2017	H	Pending introduction.
1/25/2017	H	Pass First Reading
1/27/2017	H	Referred to LAB, FIN, referral sheet 5
2/6/2017	H	Bill scheduled to be heard by LAB on Thursday, 02-09-17 8:30AM 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.

H.B. NO. 1061

A BILL FOR AN ACT

RELATING TO EMPLOYER CONTRIBUTIONS TO THE EMPLOYEES' RETIREMENT SYSTEM.

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

1 SECTION 1. The purpose of this Act is to provide for
2 increased rates for employer contributions to the employees'
3 retirement system of the State of Hawaii.

4 The legislature finds that based on the five-year actuarial
5 experience review performed as of June 30, 2016, by the system's
6 actuary pursuant to section 88-105, Hawaii Revised Statutes, the
7 actuary recommended changes to the actuarial assumptions used
8 for the actuarial valuation of the system. The recommended
9 changes were adopted by the system's board of trustees. Under
10 the new assumptions, the period required to amortize the
11 unfunded accrued liability of the system will increase from
12 twenty-seven years to exceed thirty years.

13 The contributions the State and county agencies are
14 required to make to the system to meet obligations for
15 retirement benefits are based on a percentage of payroll.
16 Section 88-122, Hawaii Revised Statutes, provides that the
17 contribution rates are subject to adjustment if the period

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1 required to amortize the unfunded accrued liability of the
2 system exceeds thirty years. To maintain the twenty-seven year
3 funding period prior to the revaluation, and if no benefit
4 changes are made, the actuary recommended an increase in the
5 employer contribution rate to forty-two and one-half per cent
6 for police officers, firefighters, and corrections officers, and
7 to twenty-four and three-quarters per cent for all other
8 employees.

9 SECTION 2. Section 88-122, Hawaii Revised Statutes, is
10 amended by amending subsection (e) as follows:

11 "(e) Commencing with fiscal year 2005-2006 and each
12 subsequent fiscal year[7] until fiscal year 2007-2008, the
13 employer contributions for normal cost and accrued liability for
14 each of the two groups of employees in subsection (a) shall be
15 based on fifteen and three-fourths per cent of the member's
16 compensation for police officers, firefighters, and corrections
17 officers and thirteen and three-fourths per cent of the member's
18 compensation for all other employees. Commencing with fiscal
19 year 2008-2009 and each subsequent fiscal year until fiscal year
20 2011-2012, the employer contributions for normal cost and
21 accrued liability for each of the two groups of employees in
22 subsection (a) shall be based on nineteen and seven-tenths per
23 cent of the member's compensation for police officers,

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1 firefighters, and corrections officers and fifteen per cent of
2 the member's compensation for all other employees. In fiscal
3 year 2012-2013, the employer contributions for normal cost and
4 accrued liability for each of the two groups of employees in
5 subsection (a) shall be based on twenty-two per cent of the
6 member's compensation for police officers, firefighters, and
7 corrections officers and fifteen and one-half per cent of the
8 member's compensation for all other employees. In fiscal year
9 2013-2014, the employer contributions for normal cost and
10 accrued liability for each of the two groups of employees in
11 subsection (a) shall be based on twenty-three per cent of the
12 member's compensation for police officers, firefighters, and
13 corrections officers and sixteen per cent of the member's
14 compensation for all other employees. In fiscal year 2014-2015,
15 the employer contributions for normal cost and accrued liability
16 for each of the two groups of employees in subsection (a) shall
17 be based on twenty-four per cent of the member's compensation
18 for police officers, firefighters, and corrections officers and
19 sixteen and one-half per cent of the member's compensation for
20 all other employees. Commencing with fiscal year 2015-2016 [~~and~~
21 ~~each subsequent fiscal year,~~] until fiscal year 2016-2017, the
22 employer contributions for normal cost and accrued liability for
23 each of the two groups of employees in subsection (a) shall be

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1 based on twenty-five per cent of the member's compensation for
2 police officers, firefighters, and corrections officers and
3 seventeen per cent of the member's compensation for all other
4 employees. In fiscal year 2017-2018, the employer contributions
5 for normal cost and accrued liability for each of the two groups
6 of employees in subsection (a) shall be based on twenty-nine per
7 cent of the member's compensation for police officers,
8 firefighters, and corrections officers and nineteen per cent of
9 the member's compensation for all other employees. In fiscal
10 year 2018-2019, the employer contributions for normal cost and
11 accrued liability for each of the two groups in subsection (a)
12 shall be based on thirty-three per cent of the member's
13 compensation for police officers, firefighters, and corrections
14 officers and twenty-one per cent of the member's compensation
15 for all other employees. In fiscal year 2019-2020, the employer
16 contributions for normal cost and accrued liability for each of
17 the two groups in subsection (a) shall be based on thirty-seven
18 per cent of the member's compensation for police officers,
19 firefighters, and corrections officers and twenty-three per cent
20 of the member's compensation for all other employees.
21 Commencing with fiscal year 2020-2021 and each subsequent fiscal
22 year, the employer contributions for normal cost and accrued
23 liability for each of the two groups in subsection (a) shall be

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1 based on forty-one per cent of the member's compensation for
2 police officers, firefighters, and corrections officers and
3 twenty-five per cent of the member's compensation for all other
4 employees. The contribution rates shall amortize the total
5 unfunded accrued liability of the entire plan over a period not
6 to exceed thirty years.

7 The contribution rates shall be subject to adjustment:

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

13 SECTION 3. New statutory material is underscored.

14 SECTION 4. This Act, upon its approval, shall take effect
15 on July 1, 2017.

16
17 INTRODUCED BY: _____



BY REQUEST

JAN 23 2017

H.B. NO. 1061

Report Title:

Employees' Retirement System; Employer Contribution Rates

Description:

Sets new rates for employer contributions to the Employees' Retirement System.

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

JUSTIFICATION SHEET

DEPARTMENT: Budget and Finance

TITLE: A BILL FOR AN ACT RELATING TO EMPLOYER CONTRIBUTIONS TO THE EMPLOYEES' RETIREMENT SYSTEM.

PURPOSE: To provide for increased rates for employer contributions to the Employees' Retirement System of the State of Hawaii beginning with fiscal year 2017-2018.

MEANS: Amend section 88-122(e), Hawaii Revised Statutes (HRS).

JUSTIFICATION: The contributions 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 of 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 benefit changes are made, the actuary recommended a phased-in increase in the employer contribution rate from 25 percent to 41 percent over four years for police officers, firefighters, and corrections officers, and a phased-in increase in the

employer contribution rate from 17 percent to 25 percent over four years for all other employees. These increases will begin in the 2017-2018 fiscal year and continue through the 2020-2021 fiscal year and will remain at the final increased rates for each subsequent fiscal year.

Impact on the public: None.

Impact on the department and other agencies:
The increase in the percentage rate for employer contributions to the Employees' Retirement System is likely to result in an increase in the amounts required to be paid by state and county agencies to meet employer obligations for retirement benefits.

GENERAL FUND: See above.

OTHER FUNDS: See above.

PPBS PROGRAM
DESIGNATION: BUF-141/Retirement.

OTHER AFFECTED
AGENCIES: All state and county public employers.

EFFECTIVE DATE: July 1, 2017.

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. 1061

FEBRUARY 9, 2017, 8:30 A.M.

RELATING TO EMPLOYER CONTRIBUTIONS TO THE EMPLOYEES' RETIREMENT
SYSTEM

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

H.B. 1061 proposes to amend Section 88-122, Hawaii Revised Statutes (HRS) to increase employer contributions by the State and counties to the Employees' Retirement System.

The contributions State and county agencies are required to make to the Employees' Retirement System (ERS) to meet obligations for retirement benefits are based on a percentage of payroll. Section 88-122, HRS, 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 existing actuarial assumptions and the current contribution rates, the period required to amortize the unfunded actuarial accrued liability (UAAL) of the system will exceed thirty years. To achieve a funding period of thirty years or less, assuming no changes in benefits are



Employees' Retirement System
of the State of Hawaii

made, the actuary views as acceptable a phased-in increase in the employer contribution rate from 25 percent to 41 percent over four years for police officers, firefighters, and corrections officers, and a phased-in increase in the employer contribution rate from 17 percent to 25 percent over four years for all other employees. These increases are forecast to begin in the 2017-2018 fiscal year and continue through the 2020-2021 fiscal year. They are expected to remain constant thereafter at the final increase level and to continue at that level for each subsequent fiscal year.

With regards to the various funding scenarios that the ERS board considered related to the proposed employer contribution increases it considered two (2) funding horizons, i.e., 25 and 30 years. The funding horizon, or funding period in years, is the number of years to achieve “full funding” under a given contribution scenario. Full funding is achieved when all unfunded liabilities have been fully amortized.

The board elected to employ as its base case a 25 year funding horizon in order to sustain the plan’s then current progression toward full funding. The 30 year funding period was viewed as less desirable as it would lengthen the period to full funding by an additional five years and increase both the total financing cost of the unfunded liability as well as increase the ultimate contribution rate necessary. Further, a 30 year funding period would establish the funding horizon exactly at the 30 year maximum set by statute, thus increasing the likelihood of having to return to the legislature for further adjustment.

While the board was presented with a range of general “alternative funding strategies” it evidenced no preference apart from the principle that the sooner contributions increased the better for the fund. The board did not consider any direct alternative contribution rates as that decision is deemed to reside solely with the legislature. The board fully recognizes that budget imperatives may result in a contribution increase strategy which falls short of an immediate increase to the level deemed necessary by the actuary to maintain the plan’s current funding horizon.

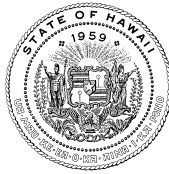
The Board of Trustees of the Employees’ Retirement System supports this legislation.

Thank you for this opportunity to provide testimony on H.B. 1061.

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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**

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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 1061

**February 9, 2017
8:30 a.m.
Room 309**



**RELATING TO EMPLOYER CONTRIBUTIONS TO THE EMPLOYEES'
RETIREMENT SYSTEM**

House Bill No. 1061 increases the statutorily required employer contribution rates to the Employees' Retirement System (ERS) from 25% of members' compensation for police officers, firefighters, and corrections officers and 17% of members' compensation for all other employees to 41% and 25%, respectively. The increases are to be implemented in phases (2% per year increases for general employees and 4% per year increases for police and fire) running from FY 18 to FY 21.

The Department of Budget and Finance strongly supports this measure. The contribution rate increases are necessary to keep the unfunded actuarial accrued liability period to less than 30 years as required by Section 88-122, HRS. Based on the ERS' most recent actuarial evaluation, if no changes are made to the contribution rates, the unfunded actuarial accrued liability period will be 66 years.

Furthermore, the ERS pension plan currently pays out approximately \$1.2 billion each year. If the ERS' unfunded liability is not addressed, then unexpected downturns

in the economy could lead to a depletion of the plan's assets, necessitating the payment of retirement benefits directly out of the same year's contributions and appropriations which would severely limit the State's ability to fund regular operations.

Thank you for your consideration of our comments.

THE HOUSE OF REPRESENTATIVES
THE TWENTY-NINTH LEGISLATURE
REGULAR SESSION OF 2017
February 7, 2107

Committee on Labor and Public Employment

Testimony by
Hawaii Fire Fighters Association

H.B. No. 1061 Relating to Employer Contributions to the Employees'
Retirement System

The Hawaii Fire Fighters Association (HFFA), Local 1463, IAFF, AFL-CIO, represents more than 1,900 professional and 800 retired fire fighters throughout the State. The HFFA, on behalf of our members, opposes H.B. No. 1061- Relating to Employer Contributions to the Employees' Retirement System.

This proposal would increase the Employers' contribution from 25% to 41% (64%) for fire fighters, police officers and corrections officers. For all other employees, the Employers' contribution rate would increase from 17% to 25% (47%). The rates are proposed to be in effect over the next four years. The increased contributions will impact the State's budget and restrict and affect essential services and programs.

HFFA appreciates your Committee's thoughtful consideration of this measure and asked that this bill be deferred.



HAWAII FIRE FIGHTERS ASSOCIATION

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS LOCAL 1463, AFL-CIO
1018 PALM DRIVE, HONOLULU, HAWAII 96814-1929
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THE HOUSE OF REPRESENTATIVES
THE TWENTY-NINTH LEGISLATURE
REGULAR SESSION OF 2017

February 7, 2017

Committee on Labor and Public Employment

Testimony by
Hawaii Fire Fighters Association, Local 1463

H.B. No. 1061 RELATING TO EMPLOYER CONTRIBUTIONS TO THE EMPLOYEES'
RETIREMENT SYSTEM.

The Hawaii Fire Fighters Association (HFFA), Local 1463, IAFF, AFL-CIO, represents more than 1,900 professional and 800 retired fire fighters throughout the State. The HFFA, on behalf of our members, **opposes H.B. No. 1061** which sets new rates for employer contributions to the employees' retirement system.

This proposal would increase the Employers' contribution from 25% to 41% (64%) for fire fighters, police officers and corrections officers. For all other employees, the Employers' contribution rate would increase from 17% to 25% (47%). The rates are proposed to be in effect over the next four years. The increased contributions will impact the State's budget and restrict and affect essential services and programs.

HFFA appreciates your Committee's thoughtful consideration of this measure and asked that this bill be deferred.