

HB 1067

**RELATING TO INVESTMENT PERSONNEL OF
THE EMPLOYEES' RETIREMENT SYSTEM.**

LAB, FIN

HB1067



Submit Testimony

Measure Title: RELATING TO INVESTMENT PERSONNEL OF THE EMPLOYEES' RETIREMENT SYSTEM.

Report Title: Employees' Retirement System; Personnel

Description: Allows the Board of Trustees of the Employees' Retirement System, through its Executive Director, to appoint one or more investment professionals and changes the status of investment specialists from civil service to exempt from civil service.

Companion: [SB933](#)

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.

A BILL FOR AN ACT

RELATING TO INVESTMENT PERSONNEL OF THE EMPLOYEES' RETIREMENT SYSTEM.

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

1 SECTION 1. Section 88-29.5, Hawaii Revised Statutes, is
2 amended to read as follows:

3 "[+] §88-29.5 [+] Investment personnel. The board may,
4 through its executive director, appoint one or more investment
5 officers[7] and investment professionals, under the direction of
6 the chief investment officer, [~~prescribing~~] prescribe their
7 duties and qualifications and [~~fixing~~] fix their salaries[7
8 ~~who~~]. Investment officers and investment professionals,
9 including investment specialists, who are appointed pursuant to
10 this section, shall be exempt from [~~chapter~~] chapters 76[-] and
11 89."

12 SECTION 2. A person in service as an investment specialist
13 on the effective date of this Act shall have the option, which
14 if exercised shall be irrevocable, to remain subject to chapter
15 76, Hawaii Revised Statutes, so long as the person remains an
16 investment specialist.

H.B. NO. 1067

1 SECTION 3. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

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

5
6 INTRODUCED BY:

A handwritten signature in black ink, appearing to read "Jim Smith", is written over a horizontal line.

7 BY REQUEST

8
JAN 23 2017

H.B. NO. 1067

Report Title:

Employees' Retirement System; Personnel

Description:

Allows the Board of Trustees of the Employees' Retirement System, through its Executive Director, to appoint one or more investment professionals and changes the status of investment specialists from civil service to exempt from civil service.

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

TITLE: A BILL FOR AN ACT RELATING TO INVESTMENT PERSONNEL OF THE EMPLOYEES' RETIREMENT SYSTEM

PURPOSE: To allow the Board of Trustees of the Employees' Retirement System of the State of Hawaii, through its executive director, to appoint one or more investment professionals, including investment specialists, who will be exempt from chapters 76 and 89, Hawaii Revised Statutes (HRS).

MEANS: Amend section 88-29.5, Hawaii Revised Statutes.

JUSTIFICATION: Successful investment of the funds of the Employees' Retirement System is one of the primary foundations to the stability and sustainability of the system. The system currently has over fourteen billion dollars in domestic and international investments and decisions made by the Board of Trustees of the system concerning these investments are critical to the current and future funding of the system, which has an unfunded actuarial accrued liability of eight billion seven million dollars and a funded ratio of 62.2 percent as of June 30, 2015.

Although the members of the Board of Trustees, as fiduciaries, are responsible for the general management of the system's assets and implementation of the system's investment policy, the trustees themselves need not be investment experts. The role of assisting and advising the board with structuring the system's investment portfolio falls primarily with the system's investment staff, which currently consists of a Chief Investment Officer and five investment professionals, two of whom are civil service employees (Investment Specialists). The current staffing is not

adequate given the uncertainty and complexity of modern financial markets. Furthermore, the current staffing structure is out of line with best practices of other similarly sized public pension plans. The investment portfolio has increased its allocations to equity products, covered calls, real return assets, and private equity. In addition, the Employees' Retirement System is transitioning its portfolio to a risk-based asset allocation program, the implementation of which will require additional attention, monitoring and review. Dedication to these investments requires experience and expertise of seasoned professionals. Investment office staff provides the Board with ongoing tactical and strategic insights into the risk-return trade-offs of multiple asset class investments.

Impact on the public: Prospect for stabilizing or lowering future contribution needs.

Impact on the department and other agencies:
None.

GENERAL FUND: None.

OTHER FUNDS: None.

OTHER AFFECTED AGENCIES: None.

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. 1067

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

RELATING TO INVESTMENT PERSONNEL OF THE EMPLOYEES' RETIREMENT SYSTEM

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

H.B. 1067 would allow the Board of Trustees of the Employees' Retirement System of the State of Hawaii (ERS), through its executive director, to offer ERS investment specialists the choice of being exempt from chapters 76 and 89, Hawaii Revised Statutes.

Successful investment of the funds of the Employees' Retirement System is one of the primary pathways to the stability and sustainability of the system. A member's retirement benefit is funded through a combination of employer and employee contributions and investment earnings. Over two-thirds of every dollar of benefits provided is attributable to investment earnings. The system currently has over fifteen billion dollars in domestic and international investments and decisions made by the Board of Trustees of the system, supported by our team of investment professionals, are critical to the current and future funding and sustainability of the system, which has an unfunded actuarial accrued liability of \$12.44 billion and a funded ratio of 54.7% as of June 30, 2016.

Although the members of the Board of Trustees, as fiduciaries, are responsible for the general management of the system's assets and implementation of the system's investment policy, they



Employees' Retirement System
of the State of Hawaii

rely heavily on internal and external investment experts for advice. The role of assisting and advising the board in investing the system's assets falls primarily with the system's investment staff consisting of a Chief Investment Officer, two strategy specific officers (liquid and illiquid investments), a risk officer, each of whom is exempt from civil service classification, and two Investment Specialists who are civil service employees. With this legislation, the Investment Specialists would be given the choice of either converting to exempt employee status or remaining as civil service employees. Prospectively, the bill will provide that future appointments in these positions will be exempt from Chapters 76 and 89.

The current investment team staffing structure, consisting of exempt Investment Officers and non-exempt Investment Specialists, is not expected to meet our long term needs. Staffing will need to be both flexible and be augmented given the complexity of our portfolio, its size and the dynamics of modern financial markets. The investment portfolio has increased its allocations to equity products, covered calls, real return assets, and private equity. In addition, the ERS is transitioning its portfolio to a risk-based asset allocation program, the implementation of which will require additional attention, monitoring, review and rebalancing. While this rebalancing will be outsourced initially, it would be preferred that we eventually bring the function in-house. Doing so would increase direct control and result in lower overall expenses.

Effective management of our investments requires the experience and expertise of seasoned professionals. Investment office staff provides the Board with ongoing tactical and strategic insights into the risk-return trade-offs of multiple asset class investments. Establishing our Investment Specialists as exempt from civil service will permit us to recruit, compensate and retain these valuable associates while providing a career path for these talented staff members. Any associated costs attributable to this conversion will be derived solely from ERS internally generated funds.

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

Thank you for this opportunity to provide testimony on H.B. 1067.



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

RANDY PERREIRA, Executive Director • Tel: 808.543.0011 • Fax: 808.528.0922

The Twenty-Ninth Legislature, State of Hawaii
House of Representatives
Committee on Labor and Public Employment

Testimony by
Hawaii Government Employees Association

February 9, 2017

H.B. 1067 – RELATING TO INVESTMENT
PERSONNEL OF THE EMPLOYEES’
RETIREMENT SYSTEM

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO opposes the purpose and intent of H.B. 1067 which allows the Board of Trustees of the Employees’ Retirement System to appoint one or more investment professionals, exempt from civil service and excluded from collective bargaining.

As drafted, H.B. 1067 allows the ERS to exempt from civil service and exclude from collective bargaining investment professionals, officers, and specialists, which creates a government workplace of “at will” employment with minimal employee rights. Collectively, the expansion of excluding and exempting positions in state government is in direct conflict with the Article XVI, Section 1 of the Hawaii State Constitution and Chapters 76 and 89, HRS, which establish a merit-based civil service system free from coercive political influences.

Thank you for the opportunity to testify in opposition H.B. 1067.

Respectfully submitted,

Randy Perreira
Executive Director

HB 1067

Late testimony