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**STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM**

TESTIMONY BY THOMAS WILLIAMS
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STATE OF HAWAII

TO THE SENATE COMMITTEE ON LABOR, CULTURE AND THE ARTS
ON

HOUSE BILL NO. 1187, H.D. 1

**March 12, 2019
2:45 P.M.
Conference Room 224**

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Taniguchi, Vice Chair Ihara and Members of the Committee,

H.B. 1187, H.D. 1 allows for the expenditure of other (non-general) funds of the Employees' Retirement System (ERS) for the fiscal biennium 2019 – 2021. As you are aware, the ERS program objectives are to provide retirement and survivor benefits to State and county employees, retirees, beneficiaries, and inactive vested members and to prudently maximize the return on its investment portfolio in an effort to guarantee availability of needed funds and to lower long-term employer and employee contributions and the ultimate cost to taxpayers.

The Fiscal Biennium 2019 - 2021 budget request includes the following items:

- \$2,824,388 in FY 2020 and \$1,153,800 in FY 2021 for the mandatory migration of the ERS's pension benefits administration and accounting computer systems from current physical servers to a more efficient and secure virtual cloud environment.



Employees' Retirement System
of the State of Hawaii

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- \$104,000 in FY 2020 and \$159,000 in FY 2021 for increased actuarial services costs incurred due to increased reporting requirements and increased ERS legal costs for general investment and administrative matters.
- \$288,690 in FY 2020 and \$288,690 in FY 2021 for 1.00 permanent FTE Investment Officer position.
- \$157,744 in FY 2020 and \$157,744 in FY 2021 for 2.00 permanent FTE Retirement Claims Examiner positions.
- \$103,791 in FY 2020 and \$103,791 in FY 2021 for 1.00 temporary FTE Information Technology position.
- \$150,000 in FY 2020 and \$22,500 in FY 2021 for an automated call distribution telephone system to:
 - Improve member services
 - Integrate with the latest version of our pension administration system
 - Increase employee efficiency
 - Replace outdated system and equipment

The Board of Trustees of the Employees' Retirement System appreciates the amendments recommended and approved by the House Committees on Labor and Public Employment and Finance and supports this legislation.

Thank you for this opportunity to provide testimony on H.B. 1187, H.D. 1.

Attachments

1. Budget and Finance FB 19-21 Requests
2. Updated Requests Summary

JUSTIFICATION SHEET

DEPARTMENT: Budget and Finance

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

PURPOSE: To authorize for fiscal biennium 2019-2021 from the pension trust fund of the Employees' Retirement System ("ERS"), program ID BUF 141, additional sums of \$3,397,227 for FY 2019-2020 and \$1,957,257 for FY 2020-2021.

MEANS: These additional funds will be expended from Other Funds of the ERS pension trust which consists of state and county employer contributions, state and county employee contributions and investment earnings.

JUSTIFICATION: Mandatory migration of information technology system to the cloud. Request other funds of \$2,824,388 in FY 2020 and \$1,153,800 in FY 2021 for mandatory migration of ERS's information technology (Vitech V3 Benefits Administration and Oracle Financials accounting) systems to the cloud in order maintain software compliance for ongoing operation of these systems. The cloud environments require (a) different types of licenses and (b) increased license counts when compared to the physical server environments. In addition, this request includes funds to maintain the security and protection of ERS's computer systems, for legislatively mandated Independent Verification and Validation (IVV) for the pension system upgrade, software maintenance and support, conversion of inconsistent employer data, and the replacement of existing obsolete computer equipment.

Actuarial and legal services. Request \$104,000 in FY 2020 and \$159,000 in FY 2021 for other funds due to increased actuarial services required to complete more frequent Experience Studies in accordance with Chapter 88 (HRS) and increased legal costs for general, investment and administrative matters of the ERS.

Investment Officer. Request to add 1.00 permanent Investment Officer and other funds of \$130,580 in FY 2020 and \$256,630 in FY 2021 to adequately monitor, prudently manage and address the numerous market risks and complexities of modern financial markets in real time for ERS's \$17+ billion investment portfolio.

Retirement Claims Examiners. Request to add 2.00 permanent Retirement Claims Examiners in the ERS Retirement Benefits Branch, Honolulu office and other funds of \$82,677 in FY 2020 and \$157,744 in FY 2021 to provide services requested from our membership and meet

the increased workload demands and service standards for ERS's growing membership base.

Temporary information technology positions. Request to add 2.00 temporary information technology positions in the ERS Information Systems branch and other funds of \$105,582 in FY 2020 and \$207,583 in FY 2021 due to increased workload requirements from several multi-year projects to upgrade ERS computer systems and implement mandatory legislative changes.

Telephone system replacement. Request \$150,000 in other funds in FY 2020 and \$22,500 in FY 2021 for an automated call distribution (ACD) telephone system to replace the existing 30-year old telephone system.

Impact on the public:
None.

Impact on the department and other agencies:
None.

GENERAL FUND:	None.
OTHER FUNDS:	ERS Pension Trust Fund.
PPBS PROGRAM DESIGNATION:	None.
OTHER AFFECTED AGENCIES:	None.
EFFECTIVE DATE:	July 1, 2019.

Employees' Retirement System
Budget Request

ERS Priority	Description		FY 2020			FY 2021		
			FTE (Perm)	FTE (Temp)	\$ Amount	FTE (Perm)	FTE (Temp)	\$ Amount
1	Add funds for mandatory migration of ERS' Vitech IT system to the cloud, update of Oracle Financials and mandated project monitoring costs.	X			2,824,388			1,153,800
2	Increase in Other Current Costs due to increase in rates, contracted amounts for required services, and reimbursement of expenses.	X			104,000			159,000
3	Establish (2.00) permanent Retirement Claims Examiner Positions	X	2.00		157,744	2.00		157,744
4	Establish (1.00) permanent Investment Officer Position	X	1.00		288,690	1.00		288,690
5	Establish (1.00) Temporary Information Technology Positions	X		1.00	103,791		1.00	103,791
6	Replace Current Telephone System	X			150,000			22,500
	total				3,628,613			1,885,525