

JOSH GREEN, M.D.
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 SENATE COMMITTEE ON WAYS AND MEANS

ON

SENATE BILL NO. 1158 S.D. 1

February 28, 2023

10:00 A.M.

Conference Room 211 and VIA Videoconference

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee,

The ERS Board of Trustees has not had the opportunity to review the bill, but the ERS staff believes the Board would strongly object to this proposal.

S.B. 1158 S.D.1 proposes to provide police officers who become members of the Employees' Retirement System (ERS) after June 30, 2023 with retirement benefits equal to those provided for members of the ERS who became members before July 1, 2012, including but not limited to calculation of retirement allowance, minimum age or years of credited service requirements, and vesting period.

The ERS believes that the bill would violate the § 88-99 Moratorium on benefit enhancements, Hawaii Revised Statutes (HRS), which states: "There shall be no benefit enhancements under this chapter for any group of members, including any reduction of retirement age, until such time as the actuarial value of the system's assets is one hundred per cent of the system's actuarial accrued liability." The system is currently 61.2% funded and has an unfunded liability of \$13.5 billion.

S.B. 1158 S.D.1 includes amendments to HRS § 88-73 regarding service retirement. § 88-73 was amended in 2011 to make changes for employees who become members of ERS after June 30, 2012, including raising the employee contribution rates, lowering



Employees' Retirement System
of the State of Hawaii

benefit multiplier, increasing the period for calculating average final compensation from three years to five years, and increasing the vesting period from five to ten years.

The purpose of the 2011 amendments was to reduce the rate of growth in the system's Unfunded Actuarial Accrued Liability (UAAL). The Legislature found that "although this measure makes a distinction in the benefits and obligations of members based upon their dates of hire, such actions are necessary to ensure the long-term viability of the Employees' Retirement System." S.S.C.R. 1206 (2011). The Legislature stated that "the ERS unfunded liability must be decisively addressed in the near future" and that "this represents a realistic and sensible method of addressing a portion of the enormous unfunded liability that the ERS currently faces." S.S.C.R. 984 (2011).

The Legislature also found:

If the public employee retirement benefit structure is not changed:

- (1) The financial soundness of the retirement system will be threatened;
- (2) Public employer costs will become increasingly burdensome to the employers and ultimately to the taxpayers; and
- (3) Vital government programs may be jeopardized because of the need to use operational funds to pay for employee benefits.

H.S.C.R. 469 (2011).

S.B. 1158 S.D.1 allows new Police Officers to have similar retirement requirements and benefits as officers hired prior to July 1, 2012. These new officers would have better benefits than members hired between July 1, 2012 to the effective date of the bill. It would also change the retirement age requirement and lower the required contribution rates for those new members.

The ERS acknowledges and respects the extraordinary sacrifices made by Police Officers and the counties' struggles to attract and retain new officers. The actuarial funded ratio of the Police and Fire category of the ERS is currently 67.4% and the plan is projected to reach full-funding in 23 years, according to ERS' actuary, Gabriel, Roeder, Smith and Co. (GRS). The UAAL attributable to Police and Fire is \$2.2 billion.

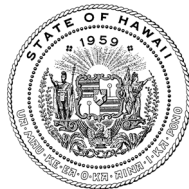
The amendments outlined in the bill would reverse a decade of progress toward lowering the system's unfunded liability and negatively impact the State's bond rating. If S.B. 1158 S.D. 1 were adopted, it is likely to lead to requests for exceptions by other employee groups. Because Police Officers and Firefighters have the same ERS benefits, we anticipate that Firefighters would demand similar treatment. The bill only applies to Police Officers. This bill would be a departure from the past practice of providing the same benefits to both groups.

If S.B. 1158 S.D. 1 were applied to all Police Officers and Firefighters hired after June 30, 2012, GRS estimates the ERS' unfunded actuarial accrued liability for the Police/Fire group would increase from \$2.2 billion to \$2.3 billion. The funded ratio for the

group would decrease from 67.4% to 66.5% and the funding period would increase from 23 years to 30 years. In order to remain at the current 23-year funding period, employer contribution rates would need to be increased from 41% to 45.1%.

For the reasons outlined, ERS opposes this bill. Thank you for the opportunity to provide testimony on S.B. 1158, S.D. 1.

JOSH GREEN, M.D.
GOVERNOR



LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
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
Ka 'Oihana Mālama Mo'ohelu a Kālā
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

WRITTEN ONLY

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 1158, S.D. 1

February 28, 2023
10:00 a.m.
Room 211 and Videoconference

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

The Department of Budget and Finance (B&F) opposes this measure.

Senate Bill (S.B.) No. 1158, S.D. 1, amends Chapter 88, HRS, to adjust the following for police officers hired after June 30, 2023: 1) the means of calculating retirement benefits, including categories of compensation that apply, retirement allowance, and average final compensation; 2) the employee contribution rate; 3) parameters for return to service and reenrollment with the Employees' Retirement System (ERS); and 4) retirement age requirements and penalties.

B&F opposes the proposed ERS benefits amendments because they represent a major setback in the State's and the other public employers' efforts to address the unfunded actuarial accrued liabilities (UAAL) for pension accumulation. Restoring the retirement benefits for police officers hired after June 30, 2023, will significantly increase annual fringe benefits costs for public employers in the future and set a precedent for other employee groups to request the same benefit amendments. Furthermore, the setback in the timeline of funding the UAAL and the increased annual fixed cost requirements burdening the State's budget will negatively impact the State's credit ratings.

Thank you for your consideration of our comments.



RICHARD T. BISSEN JR
MAYOR

OUR PREFERENCE

YOUR PREFERENCE

POLICE DEPARTMENT

COUNTY OF MAUI

55 MAHALANI STREET
WAILUKU, MAUI, HAWAII 96793
TELEPHONE: (808) 244-6400
FAX: (808) 244-6411



JOHN PELLETIER
CHIEF OF POLICE

WADE M. MAEDA
DEPUTY CHIEF OF POLICE

February 27, 2023

Honorable Donovan M. Dela Cruz, Chair
Honorable Gilbert S.C. Keith-Agaran, Vice Chair
Senate Committee on Ways and Means
Hawaii State Capitol
415 South Beretania Street
Honolulu, HI 96813

SUBJECT: SENATE BILL 1158 SD1, RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and Committee Members:

The Maui Police Department is a full-service law enforcement agency vested with authority to enforce all applicable laws, with primary jurisdiction over the County of Maui, Hawaii. The Maui Police Department has 546 authorized positions which include 400 of those positions designated for Police Officers.

Over the past several years, recruitment efforts have failed to produce the desired results, as this continues to be a nationwide issue. On average, the Maui Police Department has hired 15 Police Officers each year over the past five years. During the same five-year period, there has been an attrition of approximately 43 Police Officers.

Throughout our nation, there have been a number of violent protests held in many cities around the country over the past few years, as these events made a negative impact on the reputation of policing, along with the COVID-19 pandemic resulting in fewer applications and early retirements or resignations of officers.

This bill, in its current form, will bring back benefits closer to what was offered to officers before 2012. These benefits will serve as an incentive to attract and retain more applicants to fill our police officer shortages across the state.

The bill will restore benefits that were taken away after 2012, such as overtime and bonuses being calculated with an officer's average final compensation based on their highest three years of service, retirement benefits for officers with 25 years of service regardless of age, contribution of twelve and two-tenths percent of an officer's compensation, etc.

February 27, 2023

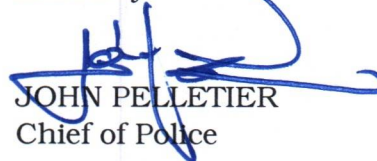
Page | 2

The Maui Police Department currently has a vacancy rate for police officers at 25%. To achieve a 25% reduction in the current overall deficit of 106 Police Officers, a minimum of 5 additional officers per year need to be hired over the next five years. This sets the minimum hiring goal for the Police Officer position at 35 per year. Based on past applicant to hire ratios, approximately 70 applicants are required for each officer hired. Therefore, we would need approximately 2,450 applicants per year or 204 applicants per month to achieve our goal of hiring 35 officers per year over the next five years.

This nationwide issue has police departments competing for applicants to fill their ranks. Majority of these departments have a lower cost of living, are offering large sign on bonuses, and better retirement benefits. Without an aggressive effort by the State of Hawaii to provide a comprehensive and beneficial retirement, the current staffing deficit will grow exponentially throughout our state. This will create a public safety issue with the current staffing amongst law enforcement in Hawaii. The bottom line; Hawaii needs more officers. But in order to hire and retain them, we need a better benefits package. As the package stands right now, an officer who is hired at 25 years of age will have to work 30 years before being eligible for the package of those officers who started before 2012.

For these reasons we are in **strong support** of this bill. We thank you for the opportunity to testify. Feel free to contact Assistant Chief Gregg Okamoto at (808) 244-6415 or by email at Gregg.Okamoto@mpd.net if you have any questions or concerns.

Sincerely,



JOHN PELLETIER
Chief of Police



STATE OF HAWAII ORGANIZATION OF POLICE OFFICERS
" A Police Organization for Police Officers Only "
Founded 1971

February 23, 2023

VIA ONLINE

The Honorable Donovan M. Dela Cruz
Chair
The Honorable Brandon Gilbert S.C. Keith-Agaran
Vice-Chair
Senate Committee on Ways and Means
Hawaii State Capitol, Rooms 208, 221
415 South Beretania Street
Honolulu, HI 96813

Re: **SB 1158 SD1– Relating to the Employees’ Retirement System**

Dear Chair Dela Cruz, Vice-Chair Keith-Agaran, and Honorable Committee members:

I serve as the President of the State of Hawaii Organization of Police Officers (“SHOPO”) and write to you on behalf of our Union in **strong support** of SB 1158 SD1 with suggested amendments. As currently drafted, this bill makes various amendments to HRS chapter 88 to reinstate benefits that were taken away from officers back in 2012 and will restore those retirement benefits for police officers who become members after 6/30/23, as explained below. If public safety is a number one priority, then it should be treated that way and funded that way.

We suggest that the retirement benefits go one step further and be restored for all officers who became members between 7/1/12 and 6/30/23 and that this Committee reinsert the amendment to HRS § 87A-36 (SB 1158, section 1) so that county police officers hired after 6/30/01 who are retired are treated as if their employment began before 7/1/01 for purposes of maintaining a spouse on a health benefit plan. The risk our officers place themselves in every day warrant the restoration of these important benefits. Three recent cases involving our officers who were severely injured in the line of duty should highlight and stand as a stark reminder to you and your committee of the inherent and serious dangers involved with our job. One suspect viciously and critically attacked an officer with a crowbar/tire iron while he was responding to a call. Another officer was critically injured while responding to a motor vehicle collision. Yet a third officer was severely injured after responding to a call involving a driver who reportedly intentionally ran over an innocent woman pushing a baby in a stroller and then attacked a bystander with a crowbar.

Main Office & Honolulu Chapter Office
1717 Hoe Street
Honolulu, Hawaii 96819-3125
Tel: (808) 847-4676 "84 SHOPO"
www.shopohawaii.org Fax: (808) 841-4818

Hawaii Chapter Office
688 Kinoole Street, Room 220B
Hilo, Hawaii 96720-3877
Tel: (808) 934-8405
Fax: (808) 934-8210

Kauai Chapter Office
3176 Oihana Street, Suite 104, Lihue
Mailing Add: P. O. Box 1708
Lihue, Hawaii 96766-5708
Tel: (808) 246-8911

Maui Chapter Office
1887 Wili Pa Loop, Suite 2
Wailuku, Hawaii 96793-1253
Tel: (808) 242-6129
Fax: (808) 242-9519

The Honorable Donovan M. Dela Cruz, Chair
The Honorable Brandon Gilbert S.C. Keith-Agaran, Vice-Chair
Senate Committee on Ways and Means
February 23, 2023

SHOPO Testimony Page 2

Re: **SB 1158 SD1– Relating to the Employees’ Retirement System**

This Act will provide a much-needed incentive to recruit and retain more police officers. As you may know, the county police departments are suffering critical officer shortages and are struggling to fill vacancies which is compromising public safety. Although our county leaders may publicly claim that public safety has not been compromised by the shortage of police officers, we on the front lines know that is simply not true when we have open beats and an insufficient number of officers available to respond to emergency calls. Maui Police Chief John Pelletier bluntly told the Maui County Council in January 2022 that “the best way for him to explain the staffing crisis and danger it poses to public safety is to ‘cut off one quarter of your body and be asked to perform at the same standard. That’s like taking a sprinter and saying, Hey, go run this race but we’re going to take your leg off.’”

Currently, police officers hired after June 30, 2012 are not eligible to retire until they have at least twenty-five years of credited service **and** have attained age 55. HRS § 88-73. In the 2011 legislative session, the minimum age requirement was added to the already existing credited service requirement, reducing retirement benefits for police officers hired after June 30, 2012. Act 163, Session Laws 2011. This bill proposes a new subsection to HRS § 88-73 to give police officers who become members after 6/30/23 the same rule as those who became members before 6/30/12 allowing them to retire with 25 years regardless of age.

This bill also proposes to amend HRS § 88-73 so that police officers shall become eligible to receive a retirement allowance pursuant to HRS 88-74(i). See SB 1158 SD1, section 6. This bill also proposes to amend HRS 88-74(i) so that reductions to allowances for retirement before age 60 are not applicable to police officers if the member has at least 25 years of credited service as a county police officer regardless of whether the member has attained age 55. See SB 1158 SD1, section 7.

The bill will also reinstate other important retirement benefits taken away over the years from our officers. For example, it would amend HRS § 88-21.5 so that police officers who become members after 6/30/23 are treated like members who became members before 7/1/12 such that “compensation” includes overtime, bonuses, etc. See SB 1158 SD1, section 2. It would amend HRS § 88-81 so that police officers who become members after 6/30/23 are treated like those who became members between 12/31/70-7/1/12 where “average final compensation” is of a member’s three highest paid years. See SB 1158 SD1, section 10. It would also amend HRS § 88-45 so that police officers who become members after 6/30/23 shall contribute 12 and two-tenths percent of their compensation to the annuity savings fund. See SB 1158 SD1, section 4. This bill will also amend HRS § 88-62 so that return to service rules for those who became members before 7/1/12 apply to police officers who become members after 6/30/23. See SB 1158 SD1, section 5.

The Honorable Donovan M. Dela Cruz, Chair
The Honorable Brandon Gilbert S.C. Keith-Agaran, Vice-Chair
Senate Committee on Ways and Means
February 23, 2023

SHOPO Testimony Page 3

Re: **SB 1158 SD1– Relating to the Employees’ Retirement System**

This bill also proposes amendments to HRS § 88-90 making subsection (c) (1.5% post-retirement allowance) not applicable to police officers who become members after 6/30/23. See SB 1158 SD1, section 11. This bill would amend HRS § 88-96 so that separation of service rules that to 7/1/12 members also apply to members who become members after 6/30/23. See SB 1158 SD1, section 12. This bill also would amend HRS § 88-311 to include a definition of “hypothetical account balance” that equates police officers who become members after 6/30/23 to those members who became a member before 7/1/12. See SB 1158 SD1, section 13.

As it currently stands, the significantly reduced retirement benefits do not attract a sufficient number of qualified police officer recruits, turnover is constant, new recruits enlist and then cannot make it through our training or they graduate and soon leave for other jurisdictions that offer higher compensation and take our training with them, and our most experienced officers, i.e., those who are eligible to retire, are exiting at the first opportunity. The officers who continue to work are fatigued and burned out working excessive hours. This has led to mental and psychological fatigue which affects an officer’s performance in the field and can be extremely detrimental. This recruitment and retention crisis has led to a catastrophic officer shortage in our communities and accompanying morale issues in our departments which, in a vicious cycle, directly erodes recruitment and retention efforts and poses a threat to public safety.

These factors, compounded by Hawai`i’s prohibitive cost of living and other factors, have combined to rank Hawai`i 50th out of 50 states (plus the District of Columbia) in the rankings of the “Best and Worst Places To Be A Cop.”

Non-competitive wages and benefits are at the root of our police recruitment woes. Our county police departments have experienced a precipitous decline in the number of applicants. From 2017 to 2021, the number of applicants for jobs as police officers dropped 33 percent in Honolulu, 50 percent in the County of Maui and 40 percent in the County of Kaua`i.

Hawai`i is also a ripe target for mainland police departments to recruit experienced police officers away to their jurisdictions with offers of higher pay, benefits, and hiring bonuses. Unless we do something about our retirement benefits and make it competitive, we will continue to lose the hiring battle and lose officers to other jurisdictions.

Recruitment woes are only part of the staffing shortage problem. All four county police departments are suffering from the loss of experienced officers mid-career as well as officers leaving the force the day they become eligible to retire, developments that have not been seen in the past where senior officers would willingly give our departments 30-32 years of service, providing much needed supervision and continuous training to our younger and less experienced officers.

The Honorable Donovan M. Dela Cruz, Chair
The Honorable Brandon Gilbert S.C. Keith-Agaran, Vice-Chair
Senate Committee on Ways and Means

February 23, 2023

SHOPO Testimony Page 4

Re: **SB 1158 SD1– Relating to the Employees’ Retirement System**

The rapid increase in retirements and resignations and significantly fewer police officer applicants has brought upon results that have ranged up to the catastrophic, with the worst-case example being Maui County, which has 201 vacancies out of 500 authorized positions. In Honolulu, average staffing levels on any given day and on any given watch can average 30% to 40% below full staffing levels and can drop below 50%. There is no way anyone can honestly say that the public’s safety is not compromised when there are multiple patrol sectors running at deficits.

Insufficient staffing means beats and neighborhoods across the state have inadequate police coverage, response times to 911 calls are inordinately delayed, and in some counties, the situation has become so dire that officers are required to work 12-hour shifts, six days a week. In some counties, given the desperate situation and because our officers do not want to leave their brother and sister officers in patrol short-handed, our officers work compulsory overtime and back-to-back shifts to fill the open beats.

Understaffing in a patrol sector is an officer safety issue. However, working overtime to back fill the empty beats also has negative consequences because it takes our officers away from their families, causes increased anxiety and stress, and contributes to an officer’s overall physical and mental health deterioration. Apart from the financial strain, this also means the department runs the risk of exhausting its officers, and it is more likely that a tired officer is going to make a mistake in high stress situations than a well-rested officer. When officers are stressed out and overworked with poor morale, no wants a job with us.

For example, in Hawai`i County where the County’s population had increased by 59% since 1980 but minimum patrol staffing has remained at the same level for 42 years, it has become a dangerous situation for officers and members of the public. Responding to calls given the staffing shortage can often exceed one hour. This presents an extremely dangerous situation for our officers who often have no choice but to respond to a call alone, although they should be responding with one or more back up or cover officers.

The recruitment and retention crisis has started a series and cascade of falling dominos in terms of very real costs that are detrimental to the community’s public safety. Police officers cannot respond to emergencies as quickly as they should, and often times emergencies are of a nature where the difference of even 30 seconds in a response time can mean a different outcome for the victims of crimes.

Low police staffing is also tied to increased crime. It is not a coincidence that the rate of certain types of criminal activity, including violent crimes, have jumped over the last several years. The homicide rate is more than double the rate from 2021 and going back to 2017. Robberies and auto thefts have also leaped to their highest levels in over five years. The recent shooting in Senator Moriwaki’s Waikiki district where approximately 20 rounds were fired in the

The Honorable Donovan M. Dela Cruz, Chair
The Honorable Brandon Gilbert S.C. Keith-Agaran, Vice-Chair
Senate Committee on Ways and Means
February 23, 2023
SHOPO Testimony Page 5

Re: **SB 1158 SD1– Relating to the Employees’ Retirement System**

heart of Waikiki is just one example of how things have spiraled out of control. We cannot close our eyes or deny a problem exists because it is right there in front of us for all to see. Simply stated, having less police officers means there is less protection for our communities.

Low staffing also breeds dysfunction in their organizations. Maui County has now been forced to use lieutenants, who should be performing command functions, to handle patrol calls. Investigators are too-frequently called upon to backfill patrol positions, directly affecting the ability to adequately investigate drug cases and felony crimes. This also affects prosecution of these crimes due to delays in completion of investigations and required reports. Delayed investigations and charge cases can get dismissed based on timeliness issues. Inadequate investigator staffing in turn translates into low “clearance” rates. In 2020, Honolulu “cleared” (by arrest or otherwise being resolved) only 25.7% of the violent crime cases it handled, far below the national average and the lowest rate for HPD in 40 years.

Compared to national benchmarks, Honolulu residents have a “much lower” overall feeling of safety, both in general and in downtown Honolulu, and a “much lower” feeling of safety from both property crime and violent crime. It is no surprise that Honolulu Mayor Rick Blangiardi once characterized the public’s concern with skyrocketing violent crime as “the equivalent, really, quite honestly, of a primal scream.” And the public understands that low police staffing poses a risk to public safety. On May 5, 2022, the Kuli`ou`ou/Kalani Iki Neighborhood Board on O`ahu unanimously adopted a resolution that the City “take immediate and impactful action to bring HPD staffing to 100% . . . [and] to improve retention of HPD officers such as revising/revisiting the retirement plan and increasing salaries of Honolulu police officers.”

If passed, this measure will serve as a significant step in turning the tide, improving efforts at recruitment and retention of officers and helping our community fill the empty beats that are compromising our community’s safety. The simple fact is that our community is in danger when there are not enough officers available to respond to a citizen’s call for help. But that is the current reality, and this bill is one step toward doing something about it.

We thank you for allowing us to be heard on this very important issue and hope your committee will unanimously support this bill and allow this bill to take effect upon its approval.

Respectfully submitted,

ROBERT “BOBBY” CAVACO
SHOPO President



Feb. 28, 2023

10 a.m.

Conference Room 211 & Videoconference

To: Senate Committee on Ways and Means

Sen. Donovan Dela Cruz, Chair

Sen. Gilbert Keith-Agaran, Vice Chair

From: Grassroot Institute of Hawaii

Joe Kent, Executive vice president

RE: SB1158 SD1 — RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on [SB1158 SD1](#), which would provide police officers who become members of the Hawaii Employees' Retirement System after June 30, 2023, with retirement benefits similar to ERS members who became members before July 1, 2012.

No doubt, this bill is intended to assist Hawaii's police departments in filling staff vacancies by providing officers more generous retirement benefits; however, we are concerned that this measure might endanger the financial stability of the ERS.

In particular, we are concerned that overturning the prohibition on "pension spiking" will increase the pension system's unfunded liabilities, which in 2021 stood at \$14.2 billion.¹

Yes, this measure would once again allow "pension spiking" — an action that the Legislature stopped for new ERS members back in 2012.

¹ ["Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2021,"](#) Hawaii Employees' Retirement System, Nov. 23, 2022, p. 132.

“Pension spiking” occurred when public employees worked overtime or received substantial bonuses. These payments — in addition to their base salaries — were used to calculate an employee’s retirement benefits.

By racking up substantial hours of overtime for just a few years during their careers, public employees could receive inflated pensions.

The Legislature recognized that this practice was sapping money from the ERS and contributing to its large unfunded liabilities, which at the time totalled roughly \$8 billion.

In the 2012 regular session, the Legislature passed and Gov. Neil Ambercrombie signed SB1269, which prohibited pension spiking for public employees hired after June 30, 2012.²

At the time, then-ERS Administrator Wes Machida said that getting the bill enacted “was really a good accomplishment for us from a liability standpoint. It helps us curtail the liability going forward.”³

The prohibition did, in fact, save the state and county governments several million dollars. In 2010, for example, pension spiking had added \$12.3 million in unfunded liabilities.⁴ The prohibition was not a silver bullet to bring down the system’s unfunded liabilities, but it helped.

Today, the ERS still is in no position to allow more pension spiking. In 2021, Hawaii’s public retirement system was only 58.3% funded. Only five other states had a lower percentage of their pension systems funded.⁵

Under its current assumptions, ERS management predicts it will take about 24 years to zero out its unfunded liabilities⁶ — assuming economic downturns, global instability or other such factors do not significantly interfere.

Allowing pension spiking would make it that much harder to pay off the unfunded liabilities.

² Nanea Kalani, “[Pension Spiking Measures Await Gov’s OK](#),” Honolulu Civil Beat, May 15, 2012; “[SB1269 SD2 HD2 CD1](#),” Hawaii State Legislature, 2012 Archives.

³ Ibid.

⁴ Ibid.

⁵ “[Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2021](#),” p. 33, 171. Note that this figure is on an actuarial basis. On a market basis, the funded ratio is 64.3%.

⁶ Ibid, p. 37.

The Pew Charitable Trusts reports that high unfunded liabilities sap government revenues and can affect credit ratings. In July 2022, two Pew researchers wrote:

“Although states have decades to pay off these sums, such spending commitments can have budget consequences both now and later.

“If the amount states must spend each year to pay down these obligations gets too high, less money may be available to fund other priorities, such as healthcare or education, or to cover unexpected needs.

“As part of a state’s full financial picture, these liabilities also can affect credit ratings and borrowing costs.”⁷

The Grassroot Institute of Hawaii recognizes that this bill is well-intentioned, but changing ERS calculations for police officers is not the way to improve police recruitment efforts.

The state and counties should consider avenues that would not burden the ERS, such as providing additional relocation assistance or other perks unrelated to pensions.

Thank you for the opportunity to submit our comments.

Sincerely,

Joe Kent
Executive vice president
Grassroot Institute of Hawaii

⁷ Joanna Biernacka-Lievestro and Joe Fleming, [“States’ Unfunded Pension Liabilities Persist as Major Long-Term Challenge,”](#) Pew Charitable Trusts, July 7, 2022.

SB-1158-SD-1

Submitted on: 2/23/2023 3:25:15 PM

Testimony for WAM on 2/28/2023 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Victor K. Ramos	Individual	Support	Written Testimony Only

Comments:

SUPPORT: Hiring and Retention of manpower in our police departments have taken a major hit when the law took effect on 07/01/12. Reinstatement of said benefits will certainly help with the aforementioned issues. No other profession in this great state comes close to enduring the high levels of everyday stress by our finests. This bill is the right thing to do.