H.B. NO. 2381

A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM FUNDING PERIOD.

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

SECTION 1. The purpose of this Act is to reduce the maximum projected funding period limit to amortize the total unfunded accrued liability of the Employees' Retirement System of the State of Hawaii (the "System") from thirty years to twenty years. This reduction would lower future costs and be viewed very favorably by the State's bond rating agencies and align the System with new Actuarial Standards of Practice. The legislature finds that due to the System's long-term investment performance, including fiscal year 2021-2022, the funding period in which the System is expected to be fully funded has steadily decreased from the forecasted thirty years in fiscal year 2015-2016 to twenty-four years in fiscal year 2021-2022. The System's funded ratio also has improved from 54.7 per cent in fiscal year 2015-2016 to 61.2 per cent in fiscal year 2021-2022 and the actual unfunded actuarial accrued liability has decreased from a peak of $14,600,000,000 in fiscal year 2019-2020 to $13,500,000,000 in fiscal year 2021-2022. Now that the increased employer contribution rates have reached the top of the phase-in, the strategy put in place by the legislature on July 1, 2017, is accomplishing the original goals. It is currently projected that the System's funded ratio will continue to improve and the unfunded actuarial accrued liability is expected to decline year over year going forward. However, there have been changes in professional actuarial industry guidance on appropriate funding policies that now recommend a maximum liability funding period of twenty years or less. This Act amends the maximum funding period to amortize the total unfunded accrued liability of the System to start at twenty-five years and lower by one year each year thereafter until reaching twenty years. A phase-in strategy would strengthen the System over the long term without impacting the expected path toward full-funding or current contribution rates absent severe and long-term adverse experience in the financial market.

SECTION 2. Section 88-21, Hawaii Revised Statutes, is amended by adding a new definition to be appropriately inserted and to read as follows:

""Maximum funding period": a period over which the amortization of the unfunded accrued liability shall not exceed twenty-five years as determined by the actuarial valuation as of June 30, 2024, twenty-four years as determined by the actuarial valuation as of June 30, 2025, twenty-three years as determined by the actuarial valuation as of June 30, 2026, twenty-two years as determined by the actuarial valuation as of June 30, 2027, twenty-one years as determined by the actuarial valuation as of June 30, 2028, and twenty years as determined by the actuarial valuation as of June 30, 2029, and thereafter."

SECTION 3. Section 88-122, Hawaii Revised Statutes, is amended by amending subsection (e) to read as follows:

"(e) Commencing with fiscal year 2005-2006 and each subsequent fiscal year until fiscal year 2007-2008, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on fifteen and three-fourths per cent of the member's compensation for police officers, firefighters, and corrections officers and thirteen and three-fourths per cent of the member's compensation for all other employees. Commencing with fiscal year 2008-2009 and each subsequent fiscal year until fiscal year 2011-2012, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on nineteen and seven-tenths per cent of the member's compensation for police officers, firefighters, and corrections officers and fifteen per cent of the member's compensation for all other employees. In fiscal year 2012-2013, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on twenty-two per cent of the member's compensation for police officers, firefighters, and corrections officers and fifteen and one-half per cent of the member's compensation for all other employees. In fiscal year 2013-2014, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on twenty-three per cent of the member's compensation for police officers, firefighters, and corrections officers and sixteen per cent of the member's compensation for all other employees. In fiscal year 2014-2015, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on twenty-four per cent of the member's compensation for police officers, firefighters, and corrections officers and sixteen and one-half per cent of the member's compensation for all other employees. Commencing with fiscal year 2015-2016 until fiscal year 2016-2017, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on twenty-five per cent of the member's compensation for police

officers, firefighters, and corrections officers and seventeen per cent of the member's compensation for all other employees. In fiscal year 2017-2018, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on twenty-eight per cent of the member's compensation for police officers, firefighters, and corrections officers and eighteen per cent of the member's compensation for all other employees. In fiscal year 2018-2019, the employer contributions for normal cost and accrued liability for each of the two groups in subsection (a) shall be based on thirty-one per cent of the member's compensation for police officers, firefighters, and corrections officers and nineteen per cent of the member's compensation for all other employees. In fiscal year 2019-2020, the employer contributions for normal cost and accrued liability for each of the two groups in subsection (a) shall be based on thirty-six per cent of the member's compensation for police officers, firefighters, and corrections officers and twenty-two per cent of the member's compensation for all other employees.
Commencing with fiscal year 2020-2021 and each subsequent fiscal year, the employer contributions for normal cost and accrued liability for each of the two groups in subsection (a) shall be

based on forty-one per cent of the member's compensation for police officers, firefighters, and corrections officers and twenty-four per cent of the member's compensation for all other employees. The contribution rates shall amortize the total unfunded accrued liability of the entire plan over a period not to exceed [~~thirty years.~~] the maximum funding period.

The contribution rates shall be subject to adjustment:

(1) If the actual period required to amortize the unfunded accrued liability exceeds [~~thirty years;~~] the maximum funding period;

(2) If there is no unfunded accrued liability; or

(3) Based on the actuarial investigation conducted in accordance with section 88-105."

SECTION 4. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 5. This Act shall take effect upon its approval.

INTRODUCED BY: ______________________

BY REQUEST

JAN 2 2 2024

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Report Title:
ERS; Funding Period

Description:
Lowering the Employees' Retirement System's funding period to amortize the System's total unfunded accrued liability.

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 THE EMPLOYEES' RETIREMENT SYSTEM FUNDING PERIOD.

PURPOSE: To decrease the maximum projected funding period limit to amortize the total unfunded accrued liability of the Employees' Retirement System (ERS) from thirty years to twenty years.

MEANS: Amend sections 88-21 and 88-122(e), Hawaii Revised Statutes (HRS).

JUSTIFICATION: A meaningful reduction in the current funding period applicable to ERS's unfunded accrued liabilities from thirty years down to twenty years would lower future costs and be viewed very favorably by the State's bond rating agencies and align ERS with new Actuarial Standards of Practice. Due to the ERS's long-term investment performance, including in fiscal year 2021-2022, the ERS is projected to be fully funded in twenty-four years, a decrease from the thirty years forecast in fiscal year 2015-2016. The ERS's funded ratio also improved to 61.2 percent in fiscal year 2021-2022 from 54.7 percent in fiscal year 2015-2016, and the actual unfunded actuarial accrued liability has decreased from a peak of $14,600,000,000 in fiscal year 2019-2020 to $13,500,000,000 in fiscal year 2021-2022. Further, the increased employer contribution rates have reached the maximum level of the phase-in strategy that was put in place by the legislature on July 1, 2017, thereby accomplishing the original goal.

It is currently projected that the ERS's funded ratio will continue to improve, and the unfunded actuarial accrued liability is expected to decline year by year. In addition, there have been changes in the professional actuarial industry guidance on

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appropriate funding policies, which now recommend a maximum liability funding period of twenty years or less. This bill proposes that the maximum funding period for the total unfunded accrued liability of the ERS initially be decreased from thirty years to twenty-five years, then decreased by one year for each year thereafter until the maximum funding period reaches twenty years. This phase-in strategy is expected to strengthen the ERS's financial position over the long term with minimal impact on the ERS's goal of full funding without increasing the current contribution rates absent any unforeseen severe and/or long-term financial adverse event in the financial market.

Impact on the public: None.

Impact on the department and other agencies: None.

GENERAL FUND:	None, although the State's long-term borrowing costs may be reduced by stable or improved credit ratings.
OTHER FUNDS:	None.
PPBS PROGRAM DESIGNATION:	BUF 141/Retirement.
OTHER AFFECTED AGENCIES:	None.
EFFECTIVE DATE:	Upon approval.