

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LIEUTENANT GOVERNOR



JADE T. BUTAY
DIRECTOR

WILLIAM G. KUNSTMAN
DEPUTY DIRECTOR

STATE OF HAWAII
KA MOKU'ĀINA O HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
KA 'OIHANA PONO LIMAHANA

March 1, 2024

To: The Honorable Donovan M. Dela Cruz, Chair,
The Honorable Sharon Y. Moriwaki, Vice Chair, and
Members of the Senate Committee on Ways and Means

Date: Friday, March 1, 2024
Time: 9:55 a.m.
Place: Conference Room 211, State Capitol

From: Jade T. Butay, Director
Department of Labor and Industrial Relations (DLIR)

Re: S.B. 3099 SD1 RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

The DLIR **strongly supports** this Administration proposal to reduce the minimum number of years for some ERS members for vested benefit status from ten years to five years. The department believes that the proposed reduction in the vesting requirement will help the Hawaii Occupational Safety and Health Division (HIOSH) attract and retain both Boiler and Elevator Inspectors. In the past, HIOSH has been able to recruit older workers to serve as Boiler and Elevator inspectors seeking a second or alternative career. However, HIOSH has encountered headwinds in recruiting these older workers to serve as inspectors since the change in the law to require a ten year vesting period. If enacted, this measure will make it easier for HIOSH to recruit both Boiler and Elevator inspectors.



JOSH GREEN, M.D.
GOVERNOR
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STATE OF HAWAII
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
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HONOLULU, HAWAII 96813
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RYAN YAMANE
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ADMINISTRATOR
DEREK M. MIZUNO
ASSISTANT ADMINISTRATOR
DONNA A. TONAKI

WRITTEN ONLY

TESTIMONY BY DEREK MIZUNO
ADMINISTRATOR, HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON SENATE BILL NO. 3099 S.D. 1

March 1, 2024
9:55 a.m.
Conference Room 211 & Videoconference

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

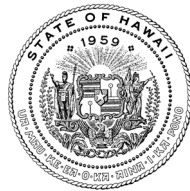
Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee:

The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board of Trustees has not taken a position on this bill. EUTF staff would like to provide comments.

The proposed bill to reduce the vesting period from ten to five years for qualified Tier 2 Employees' Retirement System members will not impact the State and counties (Employers) contribution to retiree health care premiums (i.e., medical, prescription drug, dental and vision premiums) since the Employers' health care contribution percentage is 0% of the Base Composite Monthly Contribution for retirees with 5-years but less than 10-years of service. However, the Employers will still be required to reimburse Medicare Part B premiums for the retirees in this group and if the retiree was hired prior to July 1, 2023, the spouse as well. We have not asked the EUTF's actuary to estimate the impact on the OPEB unfunded actuarial accrued liability and normal cost.

Thank you for the opportunity to testify.

EUTF's Mission: We care for the health and well being of our beneficiaries by striving to provide quality benefit plans that are affordable, reliable, and meet their changing needs. We provide informed service that is excellent, courteous, and compassionate.



JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LIEUTENANT GOVERNOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
Ka 'Oihana Mālama Mo'ohelu a Kālā
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HONOLULU, HAWAII 96810-0150

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

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 3099, S.D. 1

March 1, 2024
9:55 a.m.
Room 211 and Videoconference

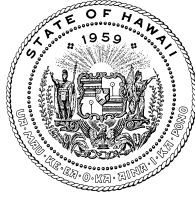
RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

The Department of Budget and Finance (B&F) supports this Administration bill.

Senate Bill No. 3099, S.D. 1: 1) reduces the minimum number of years of credited service qualified Tier 2 Employees' Retirement System (ERS) members must have to be eligible for vested benefit status for service retirement allowance purposes from ten years to five years; 2) appropriates \$9,800,000 in general funds for FY 25 for investments of the ERS; and 3) declares that the FY 25 general fund expenditure ceiling will be exceeded by an undetermined amount.

B&F strongly supports this bill that would align the minimum number of years of credited service required for vesting for Tier 2 ERS members with the requirements of Tier 1 ERS members. This will serve as an improvement in employee benefits offered by public employers to improve employee recruitment and retention without needing to adjust pension retirement benefits. Additionally, this can be implemented at a minimal cost to the State and with minimal impact to the unfunded accrued actuarial liability for pension accumulation.

Thank you for your consideration of our comments.



EXECUTIVE CHAMBERS
KE KE'ENA O KE KIA'ĀINA

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA

Senate Committee on Ways and Means

Friday, March 1, 2024

9:55 a.m.

State Capitol, Conference Room 211, and Videoconference

In Support

S.B. No. 3099, S.D. 1, Relating to the Employees' Retirement System

Chair Dela Cruz, Vice Chair Moriwaki, and members of the Senate Committee on Ways and Means:

The Office of the Governor supports S.B. No. 3099, S.D. 1, Relating to the Employees' Retirement System (ERS). S.B. No. 3099, S.D. 1 would reduce the minimum number of years of credited service from ten years to five years qualified Tier 2 ERS members must have to be eligible for vested benefit status for service retirement allowance purposes. This bill also includes an appropriation for the added costs of benefits and administrative expenses of the ERS.

State and county governments are feeling the impacts of reduced public employment. Continued and widespread vacancies are contributing to the inability of understaffed departments and agencies to provide various essential services in areas ranging from public health and transportation to correctional institutions and public education. At a time when the needs of our community are great, a well-functioning government is imperative to deliver services to the public efficiently and effectively.

Staffing issues will continue to plague the provision of public services in our State. S.B. No. 3099, S.D. 1 offers a meaningful way of recruiting individuals for jobs in government service and retaining employees in public service. The public employee benefits of comprehensive health care insurance, sick leave, vacation leave, retirement programs, and other State and county benefits are valuable incentives in pursuing a government job. Reduction in the ERS vesting requirements is but one component in attracting new and active employees to government service.

Testimony of the Office of the Governor
S.B. No. 3099, S.D. 1
March 1, 2024
Page 2

The Office of the Governor looks forward to continuing discussion on this bill to recruit individuals to, and retain employees in, State and county employment; enhance the delivery of public services in our State; and further efforts to improve the quality of life of individuals and families.

Thank you very much for the opportunity to provide testimony on this measure.

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. 3099 S.D. 1

March 1, 2024

9:55 A.M.

Conference Room 211 and VIA Videoconference

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee,

S.B. 3099 S.D. 1 proposes to reduce from ten to five years the minimum number of years of credited service that qualified Tier 2 Employees' Retirement System (ERS) members must have to be eligible for vested benefit status for service retirement, refunds, and death benefits, and amends several statutes that are affected by the reduction. The bill also requests the appropriation of funds for the added costs of benefits and administrative expenses of the ERS.

The bill's proposed 5-year vesting requirement would apply to ERS Tier 2 members in service as of July 1, 2025, or who return to service or become members after June 30, 2025.

The ERS Board of Trustees supports the bill. While the change would cause a modest increase in the cost of providing benefits, we believe this cost could be indirectly partially or fully offset by the impact of increased enrollment in the plan, receipt of related employer and employee contributions and investment earnings thereon.

A direct approach to funding the change would, amongst others, include the following options:



Employees' Retirement System
of the State of Hawaii

City Financial Tower • 201 Merchant Street, Suite 1400 • Honolulu, Hawaii 96813-2980
Telephone (808) 586-1735 • Fax (808) 586-1677 • <http://ers.ehawaii.gov>

1. An 0.19% of payroll increase in the employer contribution rate starting July 1, 2024 . This rate increase would be approximately \$9.5 million in fiscal year 2025 growing at 2.5% per year (the assumed salary growth rate).
2. A one-time lump sum of \$9 million on or before July 1, 2024 in addition to an 0.18% of payroll increase in the employer contribution rate starting July 1, 2024. This rate increase would be approximately \$9 million in fiscal year 2025 growing at 2.5% per year.
3. A one-time lump sum of \$133 million on or before July 1, 2024. This would finance the current increase in the Unfunded Accrued Actuarial Liability (UAAL) as well as the increase in benefits provided over the full current 23-year funding period. The first 23 years of this cost is financed in the lump sum payment so as to not impact the funding period.

All three of these options would fully finance the benefit enhancement and would have no impact to the funding period of ERS.

The ERS understands State and county employers in Hawaii are experiencing tough hiring challenges and increased job vacancies. The reduction in the vesting requirement is one of the components that could make employment more attractive to new and active workers.

Tier 2 employees have an ERS membership date after June 30, 2012. There are approximately 30,493 ERS Tier 2 non-vested active members who have fewer than 10 years of service, including approximately 16,600 with fewer than five years of service.

The ERS's actuary, Gabriel, Roeder, Smith & Company, estimates that a reduction to a five-year vesting for Tier 2 members would increase the UAAL funding period by four months and would modestly increase the ongoing cost of providing benefits to current and future Tier 2 members by approximately 0.18% of payroll annually. The total payroll increase for fiscal year-end 2025 is approximately \$9 million of which the State's share is approximately 76%. The funding period was at 23 years as of June 30, 2023. An additional contribution of \$8 million would allow the period to full funding to remain unchanged for the current fiscal year. The ERS also estimates the cost to make changes to its pension processing system to be \$1.7 million. The bill requests an appropriation to cover additional contributions and for added administrative expenses for fiscal year-end 2025.

The reversion to a 5-year vesting requirement is consistent with the policy actions recently taken by a number of large public funds.

May 2022 data from a survey by the National Association of State Retirement Administrators show a total of 63 of 96 public retirement systems in the United States

have vesting periods of five years or less for their newest tiers (if applicable), including 56 at 5 years. Since 2019, pension systems in Minnesota, New Mexico and New York State have reduced vesting periods of either 8 to 10 years to 5 years.

We believe this change in the Tier 2 vesting requirement not only has the potential to aid in the recruitment and retention of staff but that over time will serve to strengthen the ERS.

Thank you for the opportunity to provide testimony on S.B. 3099 S.D. 1.

**DEPARTMENT OF HUMAN RESOURCES
KA 'OIHANA HO'OMOHALA LIMAHANA
CITY AND COUNTY OF HONOLULU**

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PHONE: (808) 768-8500 • FAX: (808) 768-5563 • WEBSITE: honolulu.gov/hr

RICK BLANGIARDI
MAYOR
MEIA



NOLA N. MIYASAKI
DIRECTOR
PO'O

FLORENCIO C. BAGUIO, JR.
ASSISTANT DIRECTOR
KOKUA PO'O

February 29, 2024

LATE

The Honorable Donovan M. Dela Cruz, Chair
The Honorable Sharon Y Moriwaki, Vice Chair
and Members of the Committee on Ways and Means
The Senate, Room 211
State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee:

**SUBJECT: Senate Bill No. 3099, S.D.1
Relating to the Employees' Retirement System**

Senate Bill No. 3099, S.D.1 proposes to amend the vesting requirement from ten (10) years to 5 years for members of the Employees' Retirement System (ERS) who have membership dates after June 30, 2012 (Tier 2 members). The City and County of Honolulu, Department of Human Resources strongly supports this change in law.

The City notes that the Legislature made significant changes in 2011 and 2012 to address the unfunded liability of the ERS. These changes have been successful in making the retirement system more sustainable. The changes in this bill only affect the vesting period for Tier 2 members. The remaining characteristics of Tier 2 membership remain unchanged. The following were important considerations for the City in supporting this measure:

- **Widespread Effect:** The bill would affect all ERS eligible positions in the State and counties since, eventually, all employees will be Tier 2 members of the ERS.
- **Universal Coverage:** The bill essentially covers all situations such as Tier 2 employees who are in service on the effective date of the bill; Tier 2 employees who were separated from service and then return to service on or after the effective date of the bill and whose contributions were not refunded; and employees who enter service after the effective date of the

The Honorable Donovan M. Dela Cruz, Chair
The Honorable Sharon Y. Moriwaki, Vice Chair
and Members of the Committee on Ways and Means
February 29, 2024
Page 2

bill, would all have a 5-year vesting period. We do not anticipate there would be a need to cover additional employee groups.

- **Minimal effect on the Funding Period and Employer Contribution Rate:** While covering all positions and generally all situations, the ERS actuaries have determined that the bill will have a minimal effect on the funding period (a 4-month increase) and employer contribution rate.

The return to a 5-year vesting requirement is fully in line with the City's hiring initiative. Mayor Blangiardi has made filling City job vacancies a top priority and a number of initiatives have been launched to meet this challenge. These initiatives have made a difference, but like other employers, we continue to experience significant challenges in filling our vacant positions and we started 2024 with 2,527 vacancies. Accordingly, it is important that we have available as many tools as possible to attract workers to City employment and returning the ERS vesting requirement to 5 years would be one of those tools. Our hope is that a 5-year vesting requirement will attract more employees to government service.

Based on the foregoing, we ask for your support in advancing S.B. 3099 S.D.1.

Thank you for the opportunity to provide testimony in strong support of this measure.

Sincerely,



Nola N. Miyasaki
Director



UNITED PUBLIC WORKERS

AFSCME Local 646, AFL-CIO

THE SENATE
KA 'AHA KENEKOA
THE THIRTY-SECOND LEGISLATURE
REGULAR SESSION OF 2024

COMMITTEE ON WAYS AND MEANS
Senator Donovan M. Dela Cruz, Chair
Senator Sharon Y. Moriwaki, Vice Chair

Friday, March 1, 2024, 9:55 AM
Conference Room 211 & Videoconference

Re: Testimony on SB3099, SD1 – RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee:

The United Public Workers, AFSCME Local 646, AFL-CIO ("UPW") is the exclusive bargaining representative for approximately 14,000 public employees, which includes blue collar, non-supervisory employees in Bargaining Unit 1 and institutional, health, and correctional employees in Bargaining Unit 10, in the State of Hawaii and various counties.

UPW supports SB3099, SD1, which reduces the minimum number of years of credited service qualified Tier 2 Employees' Retirement System ("ERS") members must have to be eligible for vested benefit status for service retirement allowance purposes from ten years to five years.

Quite simply, this is a bill that is long overdue. Reducing eligibility for vested benefit status from ten to five years could greatly assist the State and counties with the recruitment and retention of public employees. Additionally, this statutory change could aid in the recruitment of eligible former employees who may be considering a return to public service in order to achieve vested benefit status.

Mahalo for the opportunity to testify in support of this measure.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kalani Werner", written over a light blue horizontal line.

Kalani Werner
State Director

HEADQUARTERS

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MAUI

841 Kolu Street
Wailuku, Hawaii 96793-1436
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1.866.454.4166

Toll Free - Molokai/Lanai only



LATE

The Committee on Ways and Means
March 1, 2024
9:55 PM
Room 211

RE: **SB 3099, SD 1, Relating to the Employee's Retirement System**

Attention: Chair Donovan Dela Cruz, Vice Chair Sharon Moriwaki and Members of the
Committee

The University of Hawaii Professional Assembly (UHPA) **supports the passage of SB 3099, SD 1**, relating to the employees' retirement system.

SB 3099, SD 1 proposes to reduce the minimum number of years of credited service qualified Tier 2 members must have to be eligible for vested benefit status for service retirement allowance purposes from ten years to five years. Since 2012, all new hires within the State system have been required to provide ten years of service before vesting with 50% Employee Retirement System (ERS) benefits, rather than the five years required for those hired prior to 2012. As all branches of government face staffing shortages, a reduction in years of credited service to obtain ERS benefits would incentivize both recruitment and retention of new employees within the State government, as well as incentivize the return of former employees who would be made eligible for these crucial benefits upon return.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'C. Fern'.

Christian L. Fern
Executive Director
University of Hawaii Professional Assembly