

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 HOUSE COMMITTEE ON LABOR AND GOVERNMENT OPERATIONS
ON
SENATE BILL NO. 3099 S.D. 2
March 19, 2024
10 A.M.
Conference Room 309 and VIA Videoconference

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

Chair Matayoshi, Vice Chair Garrett, and Members of the Committee,

S.B. 3099 S.D. 2 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 over time 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. Savings outside of the plan might result from higher employee retention and lower training costs.



Employees' Retirement System
of the State of Hawaii

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

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 change in the vesting period and would have no impact on 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 ERS funding period is 23 years as of June 30, 2023. 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.

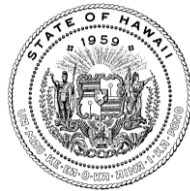
The reversion to a 5-year vesting requirement is consistent with the policy actions recently taken by a number of large public funds.

A survey by the National Association of State Retirement Administrators of 96 statewide public pension plans shows that the median vesting period for new hires is 5 years. Fifty-three percent of the plans in the sample use a 5-year vesting, while 29 percent use 10-year vesting. Recently, legislatures in New Mexico (2020), Texas (2021) and New York (2022) have reduced vesting periods either from 8 or 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.

As currently drafted, this measure assumes a July 1, 2025 effective date. To the extent an earlier effective date would prove desirable, the ERS has determined the System can accommodate the changes as early as January 1, 2025.

Thank you for the opportunity to provide testimony on S.B. 3099 S.D. 2.



JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LIEUTENANT 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

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON LABOR & GOVERNMENT OPERATIONS
ON
SENATE BILL NO. 3099, S.D. 2

March 19, 2024
10:00 a.m.
Room 309 and Videoconference

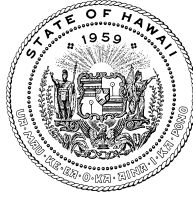
RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

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

Senate Bill No. 3099, S.D. 2: 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 an undetermined amount of 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

House Committee on Labor & Government Operations

Thursday, March 19, 2024

10:00 a.m.

State Capitol, Conference Room 309, and Videoconference

In Support

S.B. No. 3099, S.D. 2, Relating to the Employees' Retirement System

Chair Matayoshi, Vice Chair Garrett, and members of the House Committee on Labor & Government Operations:

The Office of the Governor supports S.B. No. 3099, S.D. 2, Relating to the Employees' Retirement System (ERS). S.B. No. 3099, S.D. 2 would reduce from ten years to five years the minimum number of years of credited service 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 investments 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 essential 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. 2 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. 2
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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

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 19, 2024

To: The Honorable Scot Z. Matayoshi, Chair,
The Honorable Andrew Takuya Garrett, Vice Chair, and
Members of the House Committee on Labor & Government Operations

Date: Tuesday, March 19, 2024
Time: 10:00 a.m.
Place: Conference Room 309, State Capitol

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

Re: S.B. 3099 SD2 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.

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

650 SOUTH KING STREET, 10TH FLOOR • HONOLULU, HAWAII 96813
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

March 19, 2024

The Honorable Scot Z. Matayoshi, Chair
The Honorable Andrew Takuya Garrett, Vice Chair
and Members of the Committee on Labor & Government Operations
State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Matayoshi, Vice Chair Garrett, and Members of the Committee:

**SUBJECT: Senate Bill No. 3099, S.D.2
Relating to the Employees' Retirement System**

Senate Bill No. 3099, S.D.2 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 bill, would all have a 5-year vesting period. We do not anticipate there would be a need to cover additional employee groups.

The Honorable Scot Z. Matayoshi, Chair
The Honorable Andrew Takuya Garrett, Vice Chair
and Members of the Committee on Labor & Government Operations
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- **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.2.

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

HOUSE OF REPRESENTATIVES
THE THIRTY-SECOND LEGISLATURE
REGULAR SESSION OF 2024

COMMITTEE ON LABOR & GOVERNMENT OPERATIONS

Rep. Scot Z. Matayoshi, Chair
Rep. Andrew Takuya Garrett, Vice Chair

Tuesday, March 19, 2024, 10:00 AM
Conference Room 309 & Videoconference

Re: Testimony on SB3099, SD2 – RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Matayoshi, Vice Chair Garrett, 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, SD2, which reduces from ten years to five years, the minimum number of years of credited service qualified Tier 2 Employees' Retirement System members must have to be eligible for vested benefit status for service retirement allowance purposes from ten years to five years. Additionally, this measure appropriates funds for investments of the ERS.

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", is written over a light blue horizontal line.

Kalani Werner
State Director

HEADQUARTERS

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Toll Free - Molokai/Lanai only



The House Committee on Labor & Government Operations
March 19, 2024
10:00 AM
Room 309

RE: **SB 3099, SD 2, Relating to the Employee's Retirement System**

Attention: Chair Scot Matayoshi, Vice Chair Andrew Garrett and members of the Committee

The University of Hawaii Professional Assembly (UHPA) **supports the passage of SB 3099, SD 2**, relating to the employees' retirement system.

SB 3099, SD 2 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

SB-3099-SD-2

Submitted on: 3/16/2024 9:03:51 AM

Testimony for LGO on 3/19/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
ANNETTE TASHIRO	Individual	Support	Written Testimony Only

Comments:

We are in a staffing crisis. Many State Civil Service positions are not competitive with the private market. Times are changing and so are the workforce generation(s). Ten years is too long to be vested. If a person reaches 5 years and becomes committed to the job, retirement investment should be one of the perks. My generation was different. Most people were "lifers" for their jobs which can be good or not so. Recruitment and retention of State staff need better outcomes.