

EXECUTIVE CHAMBERS
KE KE'ENA O KE KIA'ĀINA

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA

House Committee on Finance

Friday, March 28, 2025

2:00 p.m.

State Capitol, Conference Room 308, and Videoconference

In Support

S.B. No. 935, S.D. 2, H.D. 2, Relating to Government

Chair Yamashita, Vice Chair Takenouchi, and Members of the House Committee on Finance:

The Office of the Governor supports S.B. No. 935, S.D. 2, H.D. 2, Relating to Government, 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. The bill also increases employer contributions to offset the resulting liability from these changes.

State and county governments are feeling the impacts of reduced public employment. Continued and widespread vacancies are hampering the ability of state and county departments and agencies to provide various essential services in areas ranging from public health and transportation to correctional institutions and public education. While the service retirement allowance provided to ERS members has the potential to serve as a powerful recruitment and retention tool for Hawai'i's public sector, in today's job market of decreased job tenure, a vesting period of ten years, particularly compared to the five years of Tier 1 ERS members, no longer carries the same attractiveness as it once did, diminishing the recruitment and retention power of this retirement benefit. S.B. No. 935, S.D. 2, H.D. 2, addresses this reality, standardizing the number of years of credited service required to become eligible for vested benefit status while minimizing the financial impact to the State and counties.

Although reducing the vesting period for qualified Tier 2 ERS members will increase the ERS's unfunded actuarial accrued liability, this bill proposes a financing mechanism to offset this added liability. With no appropriation and a minimal increase of 0.19 percent to employer contributions, the additional \$9.6 million required per year to provide benefits to current and future Tier 2 members will be offset. This bill's impact to ERS's projected full funding period is also minimal compared to its potential to grow and maintain the public workforce, adding four months to the funding period while halving the vesting period required for Tier 2 members.

Testimony of the Office of the Governor
S.B. No. 935, S.D. 2, H.D. 2
March 28, 2025
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Regarding the bill's provisions amending retirement benefits for sheriffs and deputies, the Office of the Governor shares the concerns voiced in ERS's testimony and respectfully requests the committee amend the bill to address these concerns.

Staffing issues will continue to plague the provision of public services in our State if the State and counties fail to pursue more effective recruitment and retention policies. Although service retirement allowance is but one benefit an individual considers when deciding whether to pursue a career in public service, it is one that holds great recruitment and retention potential. S.B. No. 935, S.D. 2, H.D. 2, increases access to this benefit while minimizing impacts to the State and counties.

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 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 28, 2025

To: The Honorable Kyle T. Yamashita, Chair,
The Honorable Jenna Takenouchi, Vice Chair, and
Members of the House Committee on Finance

Date: Friday, March 28, 2025
Time: 2:00 p.m.
Place: Conference Room 308, State Capitol

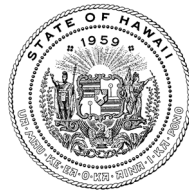
From: Jade T. Butay, Director
Department of Labor and Industrial Relations (DLIR)

Re: S.B. 935 SD2 HD2 RELATING TO GOVERNMENT

The **DLIR supports Part II** of the HD2 of this measure and defers to the Employees' Retirement System (ERS) on the specifics, as well as to the Department of Budget and Finance (B&F) on the fiscal impact. 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.

Historically, HIOSH has been able to recruit older workers seeking a second or alternative career to serve as Boiler and Elevator Inspectors. However, since the change in law requiring a ten-year vesting period, HIOSH has faced challenges in recruiting these workers. If enacted, this measure could ease HIOSH's efforts to attract both Boiler and Elevator Inspectors.

Thank you for this opportunity to provide testimony on this important matter.



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 FINANCE
ON
SENATE BILL NO. 935, S.D. 2, H.D. 2

March 28, 2025
2:00 p.m.
Room 308 and Videoconference

RELATING TO GOVERNMENT

The Department of Budget and Finance (B&F) offers comments on this bill.

Senate Bill No. 935, S.D. 2, H.D. 2, does the following: 1) increases the retirement compensation computations of sheriffs and deputies to match those of police officers and other related positions; 2) reduces 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; and 3) increases employer contributions to offset the liability produced by the vesting changes.

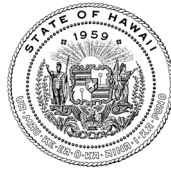
B&F defers to the Employees' Retirement System on the impacts of changes to the retirement compensation for judges and vesting changes for Tier 2 employees; however, B&F has serious concerns about the proposed amendments for the retirement compensation computations for sheriffs and deputies as they will increase the State's unfunded actuarial accrued liabilities (UAAL) for pension accumulation and other post-employment benefits for these employees and will set an undesirable precedent for other employee groups to request the same benefit enhancements.

It is important to note that Section 88-99, HRS, prohibits benefit enhancements for any group of members, including any reduction of retirement age, until such time as the actuarial value of the system's assets is 100% of the system's actuarial liability, which is currently estimated at 22 years from now. A setback in the timeline of funding the State's UAALs and the increased annual fixed cost requirements burdening the State's budget will negatively impact the State's credit rating.

Further, while this measure increases the retirement compensation for sheriffs and deputies, it does not make conforming amendments to Section 88-45, HRS, to adjust their employee contributions to police officers. Police officers and firefighters are provided with the ability to retire upon meeting service requirements without penalty for age; however, these employees contribute 14.2% of their compensation for this benefit. As the bill is currently drafted, sheriffs and deputies will be provided police officer retirement benefits without having to contribute appropriately.

Finally, it should be noted that sheriffs and deputies do not have the Social Security contribution exemption that police officers and firefighters have. (NOTE: When Social Security was being implemented, states were given the one-time option to exempt certain classes of employees - Hawai'i opted to exempt police officers and firefighters.) Consequently, if these employees are required to contribute 14.2% of their compensation like police officers and firefighters, their Federal Insurance Contributions Act (7.65%) and retirement contributions would amount to 21.85% of their compensation.

Thank you for your consideration of our comments.



JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LIEUTENANT GOVERNOR

STATE OF HAWAII
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
201 MERCHANT STREET, SUITE 1700
HONOLULU, HAWAII 96813
Oahu (808) 586-7390
Toll Free 1(800) 295-0089
www.eutf.hawaii.gov

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TESTIMONY BY DEREK MIZUNO
ADMINISTRATOR, HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON SENATE BILL NO. 935 S.D.2 H.D.2

March 28, 2025
2:00 p.m.
Conference Room 308 & Videoconference

RELATING TO GOVERNMENT

Chair Yamashita, Vice Chair Takenouchi, and Members of the Committee:

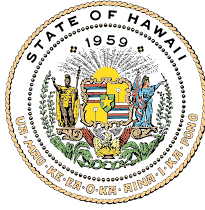
The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board of Trustees has not taken a position on this bill. EUTF staff would like to provide comments on the section of the proposed bill that reduces the vesting period from ten to five years for qualified Tier 2 Employees' Retirement System members. This change 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. The bill would not impact the State's unfunded liability as of July 1, 2024 but would have increased the recently determined normal cost by approximately \$13 million (5.5% increase in the normal cost) with approximately 4% growth thereafter.

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



THOMAS WILLIAMS
EXECUTIVE DIRECTOR

GAIL STROHL
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 FINANCE
PROVIDING COMMENTS ON
SENATE BILL NO. 935, S.D.2, H.D.2
March 28, 2025
2:00 P.M.
Conference Room 308 and VIA Videoconference**

RELATING TO THE GOVERNMENT.

Chair Yamashita, Vice Chair Takenouchi, and Members of the Committee,

The ERS Board of Trustees (BOT) strongly supports Part II of S.B. 935, S.D.2, H.D.2, which lowers the vesting requirement for Tier 2 employees with the intent to increase membership but has serious concerns regarding Part I of the bill with respect to the application of special category benefits for sheriffs and deputy Sheriffs and respectfully offers the following comments.

S.B. 935, S.D.2, H.D.2, proposes to: 1) add Tier 2 sheriffs and deputy sheriffs to a class of positions eligible for the 2.25% enhanced retirement allowance multiplier for each year of service and an 80% maximum of their AFC; 2) reduce the Tier 2 vesting requirement for members in service on or after June 30, 2027 from 10 years to 5 years; and 3) increase employer contribution rates by 0.19% beginning July 1, 2025.

Regarding Part II of S.B. 935, S.D.2, H.D.2, the ERS notes that a steady inflow of new members, along with the contributions made on their behalf, is crucial to the long-term sustainability of our plan. Fewer than expected new entrants increases the long-term cost of our program. Normal or higher than expected growth in new employees would either maintain or shorten the period to full funding respectively.



Demonstrating this fact, Tier 2 hires represented 55% of the active membership in 2024, but accounted for only approximately 5.7% of the total liability. It is estimated that an increase from 1% to 2% in ERS membership, the equivalent of between 650 and 1,300 total members by 2046, would have the potential to reduce the period in which the system would reach full funding by 4 months on its own.

Section 6 of S.B. 935, S.D.2, H.D.2, proposes to offset the increased liability of reducing the vesting requirement for Tier 2 members with an increase to employer contribution rates of 0.19% on covered ERS payroll, which is estimated to grow at 2.5% per year. This would start at approximately \$10.9 million in fiscal year 2026, with an approximate split of 76% from the State and 24% between the City and Counties. This increase is projected to total \$280 million through 2046 when the system is scheduled to be fully funded. Absent this relatively modest increase in the employer contribution rate, the proposed reduction in the vesting period is forecast to extend the plan's period to full funding by approximately 4 months.

Regarding Part I of S.B. 935, S.B.1, H.D.1, ERS has serious concerns that the addition of "sheriff and deputy sheriffs" under Section 1, page 2, lines 4 to 5, and page 3, line 20 would provide Tier 2 contributory plan employees of this group enhanced contributory plan benefits without: 1) defining the positions eligible; 2) requiring mandatory enrollment as class A members of the contributory plan; 3) requiring similar minimum total service requirements to be exempt from an age reduction; and 4) requiring proportional increased employee and employer contribution rates. Absent these changes, Tier 2 "sheriffs and deputy sheriffs" enrolled in the contributory plan will be able to receive an enhanced retirement allowance without having to pay the proportional contributions other members and employers of those positions pay to fund those benefits.

It is estimated that the inequitable employee and employer contributions over a career, in combination with increased benefits throughout retirement, would result in an over \$560,000 increase in the system's cost per Tier 2 sheriff and deputy sheriff subject to S.B. 935, S.B. 2, H.D. 2. Any resulting liability would be shared system-wide across all ERS members and employers.

As an example, a Tier 2 deputy sheriff III (SR 20) retiring as soon they are eligible for an unreduced benefit (no age reduction) under the current provisions of the bill, would receive an estimated \$506,000 more in life-time retirement payments than the same Tier 2 deputy sheriff would currently being enrolled in the Hybrid plan. This Contributory Tier 2 deputy sheriff, as proposed in the bill, would make \$36,000 less in employee contributions than a similar special category contributory member but would receive \$127,000 more in projected pension. There would also be a nearly \$400,000 debt in employer contributions between the deputy sheriff under this bill and other special category contributory members attributed to the difference in the employer rates.

There is also a concern about potential retroactive application of these benefits to Tier 2 "sheriffs and deputy sheriffs" which would be administratively burdensome to both ERS and DLE.

Given these concerns, the ERS humbly requests that should the bill be advanced, that the addition of sheriffs and deputy sheriffs to the classes of employees entitled to enhanced category benefits be removed so that the issues posed can be discussed and addressed with the stakeholders more thoroughly to ensure proper understanding and implementation.

Should the committee choose to include the amendment regarding sheriffs and deputies, the ERS respectfully requests that language be added addressing the major concerns identified above, including a clear future implementation date for enrollment, contributions and benefit accrual of "after June 30, 2027" be included to coincide with the accompanying Tier 2 vesting changes. This date would afford ERS the time and opportunity to budget the funding necessary to implement such a significant proposal.

Thank you for the opportunity to provide testimony on S.B. 935, S.D.2, H.D.2.



1200 Ala Kapuna Street • Honolulu, Hawai'i 96819
Tel: (808) 833-2711 • Fax: (808) 839-7106 • Web: www.hsta.org

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President

Logan Okita
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Executive Director

TESTIMONY TO THE HAWAI'I HOUSE COMMITTEE ON FINANCE

Item: SB 935, SD2, HD2 – Relating to Government

Position: Support

Hearing: Friday, March 28, 2025, 2:00 pm, Room 308

Submitter: Osa Tui, Jr., President - Hawai'i State Teachers Association

Dear Chair Yamashita, Vice Chair Takenouchi and members of the committee,

The Hawai'i State Teachers Association (HSTA) supports SB 935, SD2, HD2 which reduces 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.

SB 935, SD2, HD2 recommends an important amendment to the Employees' Retirement System by reducing the vesting period from ten years to five years for Tier 2 members which will help address our teacher and state worker shortage in Hawai'i. By reducing the vesting period from ten years to five years for these members, we can create a more attractive and competitive employment environment.

Shortening the vesting period will incentivize qualified individuals to pursue careers in public service in Hawai'i. The prospect of earlier retirement benefits will make positions in education and government more desirable, especially considering the high cost of living in our state.

SB 935, SD2, HD2 offers a practical solution to our workforce challenges, and we recommend passage to support our dedicated public service professionals and strengthen our state's workforce.

Mahalo.



UNITED PUBLIC WORKERS

AFSCME Local 646, AFL-CIO

HOUSE OF REPRESENTATIVES THE THIRTY-THIRD LEGISLATURE REGULAR SESSION OF 2025

COMMITTEE ON FINANCE

Rep. Kyle T. Yamashita, Chair

Rep. Jenna Takenouchi, Vice Chair

Friday, March 28, 2025, 2:00 PM
Conference Room 308 & Videoconference

Re: Testimony on SB935, SD2, HD2 – RELATING TO GOVERNMENT

Chair Yamashita, Vice Chair Takenouchi, 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 Part II of SB935, SD2, HD2, which reduces 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.

We strongly believe reducing the 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.

HEADQUARTERS

1426 North School Street
Honolulu, Hawaii 96817-1914
Phone 808.847.2631

HAWAII

362 East Lanikaula Street
Hilo, Hawaii 96720-4336
Phone 808.961.3424

KAUAI

2970 Kele Street, Suite 213
Lihue, Hawaii 96766-1803
Phone 808.245.2412

MAUI

841 Kolu Street
Wailuku, Hawaii 96793-1436
Phone 808.244.0815

1.866.454.4166

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HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

RANDY PERREIRA, Executive Director • Tel: 808.543.0011 • Fax: 808.528.0922

The Thirty-Third Legislature, State of Hawaii
House of Representatives
Committee on Finance

Testimony by
Hawaii Government Employees Association

March 28, 2025

S.B. 935, S.D. 2, H.D. 2 — RELATING TO GOVERNMENT.

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO supports S.B. 935, S.D. 2, H.D. 2, which reduces 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.

We recognize that our state and counties must explore new and alternative ways to recruit and retain a qualified workforce, especially at a time when government salary alone may not be enough to be considered an attractive career. Reports indicate that our state's workforce has a 24% vacancy rate. We appreciate the intent of this measure as it could serve as one of many tools to help with state and counties recruit new employees – furthermore, this change may help in the recruitment of former employees who may consider returning to public service to become vested.

Thank you for the opportunity to provide comments on S.B. 935, S.D. 2, H.D. 2.

Respectfully submitted,

Randy Perreira
Executive Director