

EXECUTIVE CHAMBERS
KE KE'ENA O KE KIA'ĀINA

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA

Senate Committee on Ways and Means

Wednesday, February 26, 2025

10:02 a.m.

State Capitol, Conference Room 211, and Videoconference

In Support

S.B. No. 935, S.D. 1, Relating to Government

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. 935, S.D. 1, Relating to Government. S.B. No. 935, S.D. 1, sets the retirement allowance for a member who has credited serve as a judge after January 31, 2025, and reduces 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 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. 1, 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.

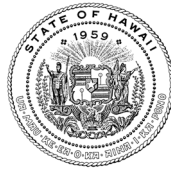
Although reducing the vesting period for qualified Tier 2 ERS members will increase the ERS's unfunded actuarial accrued liability, this bill proposes a financing mechanism to offset this added liability. With no appropriation and a minimal increase of 0.19 percent to employer contributions, the additional \$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
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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. 1, 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

STATE OF HAWAII
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
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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. 935 S.D.1

February 26, 2025
10:02 a.m.
Conference Room 211 & Videoconference

RELATING TO GOVERNMENT

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 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 fiscal year 2027 annual required contributions by approximately \$13 million 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



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

JADE T. BUTAY
DIRECTOR

WILLIAM G. KUNSTMAN
DEPUTY DIRECTOR

February 26, 2025

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: Wednesday, February 25, 2025
Time: 10:02 a.m.
Place: Conference Room 211, State Capitol

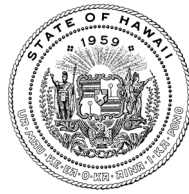
From: Jade T. Butay, Director
Department of Labor and Industrial Relations (DLIR)

Re: S.B. 935 SD1 RELATING TO GOVERNMENT

The **DLIR supports** Part II of the SD1 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 SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 935, S.D. 1

February 26, 2025
10:02 a.m.
Room 211 and Videoconference

RELATING TO GOVERNMENT

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

Senate Bill No. 935, S.D. 1, does the following: 1) reduces the retirement allowance for judges starting service after January 31, 2025, to 1.75% annually for each year of service; 2) increases the retirement compensation computations of sheriffs and deputies to match those of police officers and other related positions; 3) 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 4) 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

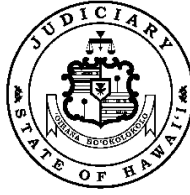
post-employment benefits for these employees and will set an undesirable precedent for other employee groups to request the same benefit enhancements.

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.



The Judiciary, State of Hawai‘i

Testimony to the Thirty-Third Legislature, 2025 Regular Session

Senate Committee on Ways and Means
Senator Donovan M. Dela Cruz, Chair
Senator Sharon Y. Moriwaki, Vice Chair

Wednesday February 26, 2025, 10:02 a.m.
State Capitol, Conference Room 211 and Videoconference

by

Rodney A. Maile
Administrative Director of the Courts

WRITTEN TESTIMONY ONLY

Bill No. and Title: Senate Bill No. 935, SD1, Relating to Government.

Purpose: Sets the retirement allowance for a member who has credited service as a judge after 1/31/2025, irrespective of age, to 1.75 per cent of the judge's average final compensation for each year of credited service as a judge. 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. Increases employer contributions to offset the resulting liability.

Judiciary's Position:

The Judiciary respectfully and strongly opposes page 5, lines 1 through 6 of Senate Bill 935, Senate Draft 1, which proposes to decrease retirement benefits for “a member who has credited service as a judge after January 31, 2025.”

As written, this portion raises constitutional concerns by seeking retroactive application to current judges. Specifically, the phrasing of applicability to a member “who has credited service as a judge after January 31, 2025” appears to include those who have credited service after that date *and* those who have credited service as a judge on and before that date. In contrast,



Senate Bill No. 933, SD1, Relating to Government
Senate Committee on Ways and Means
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other portions of the same section (*see* page 2, line 1; page 2, line 17; page 3, line 16; page 4, line 9) use the phrasing “who first earned credited service . . . [after (a date certain)] . . .” The latter phrasing established tiers of lesser benefits for those who first earned credited service after specific future dates. In addition, the “after January 31, 2025” language is retroactive. Retroactive reductions to retirement benefits for past services are unconstitutional. *Dannenberg v. State*, 139 Haw. 39, 57, 383 P.3d 1177, 1195 (2016) (interpreting and applying article XVI, section 2 of the Hawai‘i Constitution).

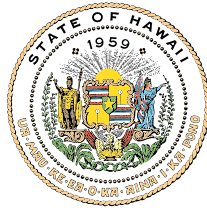
Further, reduced retirement benefits, even for new judges after a future date certain, will adversely affect recruitment. Applications for judicial positions statewide since 2019 have trended downward overall and downward among women applicants. As a result, numerous deadlines for these public offices have been extended. Indeed, from 2019 through the summer of 2024, 30% of vacant judgeships statewide and 79% of vacant judgeships on the neighbor islands have required extended application deadlines. This has led to prolonged vacancies of judicial positions that have in turn impacted the public. Reducing retirement benefits will make it more difficult to attract judicial applications from the most highly qualified attorneys.

Other than this portion of Senate Bill 935, Senate Draft 1 that the Judiciary opposes, this measure, consistent with Senate Bill 1401, appears to have been drafted to “assist state and county employers in recruiting and retaining qualified employees,” and the Judiciary supports that intent. (Quoting Justification Sheet of Senate Bill 1401).

Thank you for the opportunity to testify on this measure.

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 SENATE COMMITTEE ON WAYS AND MEANS
PROVIDING REVISED COMMENTS ON
SENATE BILL NO. 935, S.D.1**

February 26, 2025

10:02 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,

While the ERS Board of Trustees (BOT) has not had the opportunity to review this legislation, ERS staff believes the Board would support the intent to lower the vesting requirement for tier 2 employees with the intent to increase membership but would have other concerns regarding the bill and respectfully offers the following comments.

S.B. 935, S.D.1, proposes to: 1) reduce the multiplier for service credited as a judge after January 1, 2025 from 3% to 1.75% per year for elective and legislative officers; 2) eliminate the minimum age requirement of age sixty to avoid an age reduction on credited service as a judge after January 1, 2025 for elective and legislative officers; 3) adds sheriffs and deputies to those groups of employment eligible for 2.25% multipliers for year service along with an 80% maximum of their AFC; 4) reduce the Tier 2 vesting requirement for members in service on or after June 30, 2027 from 10 years to 5 years; and 5) increase the employer contribution rate for both police officers, firefighters, and corrections officers and all other employees by 0.19% beginning July 1, 2025.



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>

ERS would clarify that the amendment in Section 1, page 5, lines 1 to 6 of the bill is changing the benefit as a judge for elective and legislative officers who became members before July 1, 2012. Although item one of standing committee report #708 states in part that the intent of this measure is to:

[Set] the retirement allowance for a member who has credited service as a judge after January 1, 2025, irrespective of age, at 1.75 per cent of the member's average final compensation for each year of credited service as a judge;

this reduced retirement allowance would specifically apply to tier 1 elective and legislative officers with credited service as a judge after January 1, 2025, rather than to all judges.

ERS has concerns that the retroactive date of this amendment could violate Article 16, Section 2 of the Hawaii Constitution, which provides that accrued ERS benefits cannot be diminished or impaired. We respectfully request that should this amendment remain, the following changes to Section 1, page 5, lines 1 to 6, be adopted to address this concern:

(D) For a member who ~~[has]~~ first earned credited service as a judge after ~~[January 31, 2025]~~ June 30, 2026, irrespective of age, for each year of credited service as a judge after June 30, 2026, one and three-fourths per cent of the member's average final compensation as computed under section 88-81(e)(3);

In addition to the Constitutional concerns addressed above, the additional time proposed would allow ERS the necessary time to make the operational and pension administration system changes required to implement these changes.

The ERS also has concerns that addition of "sheriffs and deputies" under Section 2, page 9, line 4, would provide tier 2 contributory plan employees of this group enhanced contributory plan benefits without: 1) defining the positions eligible; 2) not require mandatory enrollment as class A members of the contributory plan; 3) not require similar minimum total and specific service requirements to qualify; 4) not require similar minimum total service requirements to be exempt from an age reduction; and 5) not require proportional increased employee and employer contribution rates.

As with the previously proposed benefit change, the ERS would humbly request both the time and funding necessary to implement such a significant proposal.

There is also a concern about retroactive application of these benefits to tier 2 "sheriffs and deputies" which would be administratively burdensome to both ERS and DLE. The ERS respectfully suggests that along with addressing the previous concerns regarding providing this tier 2 group of employees enhanced contributory benefits, a future effective date for the enrollment and implementation of these benefits be considered.

ERS would further suggest that Section 9, page 34, line 4 be amended to read:

[...] member after June 30, 2027, and has [~~fewer than~~] five or more years of [...]

so that it is consistent with the subsection establishing vesting criteria for both tiers of class H members in the Hybrid plan.

Lastly, the ERS recommends that Section 10 of the bill be moved from Part II to Part III to allow this savings clause to apply to the entirety of the amendments in the bill with the following amendments:

SECTION 10. [~~This~~] The preceding parts do[es] not affect the rights, duties, and obligations that matured or were vested, or proceedings that were begun, before its effective date, including but not limited to, any membership that was terminated, credited service that was forfeited, retirement that was finalized, or benefits which were paid.

Thank you for the opportunity to provide testimony on S.B. 935, S.D.1.



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Executive Director

TESTIMONY TO THE HAWAI'I SENATE COMMITTEE ON WAYS AND MEANS

Item: SB 935, SD1 Proposed – Relating to Government

Position: Support

Hearing: Wednesday, February 26, 2025, 10:02 am, Room 211

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

Dear Chair Dela Cruz, Vice Chair Moriwaki and members of the committee,

The Hawai'i State Teachers Association (HSTA) supports SB 935, proposed SD1 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, proposed SD1 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, SD1 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.



Randy Perreira
President

HAWAII STATE AFL-CIO

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The Thirty-Third Legislature
The Senate
Committee on Ways and Means

Testimony by
Hawaii State AFL-CIO

LATE

February 26, 2025

TESTIMONY IN SUPPORT OF SB935 SD1 - RELATING TO GOVERNMENT

Chairs Dela Cruz, Vice Chairs Moriwaki, and members of the committees:

The Hawaii State AFL-CIO is a state federation of 76 affiliate labor organizations representing over 69,000 union members across Hawaii in industries including healthcare, construction, hospitality, entertainment, transportation, and government. The Hawaii State AFL-CIO serves its affiliates by advocating for the rights of working families, promoting fair wages, safe working conditions, and policies that strengthen Hawaii's workforce.

We support SB935 SD1 because it strengthens retirement security for public employees who dedicate years of service to the state and counties. Requiring ten years of service to qualify for retirement benefits places Tier 2 employees at a disadvantage compared to their Tier 1 counterparts. Many public workers leave government service before reaching ten years, forfeiting their earned benefits and making it harder to attract and retain qualified employees.

A fair and competitive retirement system is critical for workforce stability. Lowering the vesting threshold allows more public employees to secure the benefits they have earned, helping to strengthen retention and ensure the state continues to attract experienced professionals.

We respectfully request the committee's support of SB935 SD1 to protect retirement benefits and support a stable public workforce.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Randy Perreira", is written over a light blue circular stamp.

Randy Perreira
President