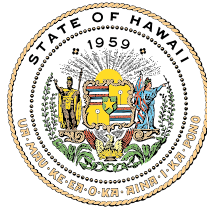


JOSH GREEN, M.D.
GOVERNOR

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 LABOR
ON
HOUSES BILL NO. 378**

January 28, 2025

9:00 A.M.

Conference Room 309 and VIA Videoconference

RELATING TO DEFERRED RETIREMENT FOR POLICE.

Chair Sayama, Vice Chair Lee, and Members of the Committee,

While the ERS Board of Trustees has not had the opportunity to review this legislation, ERS staff believes the Board would have meaningful concerns and respectfully offers the following comments:

H.B. 378, proposes to create a Deferred Retirement Option Program (DROP) into which a police officer may enroll within 12 months of normal retirement eligibility. Upon enrollment, the participant would be considered a retiree and allowed to continue working as a police officer exempt from mandatory ERS membership for up to ten years. The retiree would no longer make employee contributions, and the accrual of retirement benefits would cease. The retirement allowance accrued up to the time of enrollment would be deposited into the DROP account to accrue monthly interest equivalent to the system's actual investment return, net of investment expenses.

While ERS recognizes the difficulties in staffing police officer positions, and the value provided by retaining veteran officers, we have concerns regarding the administrative and financial impact of the proposed DROP to the system.



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>

The DROP program as currently proposed would increase the cost to the system and does not provide for any employer contributions to offset the increase in liability or expense. By incentivizing what is, for funding purposes, essentially police officer retirement three to four years earlier than currently averaged, the system would payout pensions for a longer relative period while having less time to invest contributions to fund those pensions. Covered payroll would likely decrease as a result of not replacing these normally eligible positions with active contributing ERS members, but by retirees enrolled in the DROP. Together, this would cause the Unfunded Accrued Actuarial Liability (UAAL) to increase by approximately \$187 million and increase the period to full funding of the system by eight additional years. At current contribution levels, it would cost an additional \$1.9 billion in extended police employer contributions if the UAAL were to be paid down over what would constitute a now 30-year period.

Act 192 of SLH 2024, lowered the maximum funding period from 30 years to 25 years as of June 30, 2024, with progressive decreases in the funding period to 20 years with the intent to avoid ongoing periods of negative amortization of the UAAL, saving money over the long-term and strengthening the state's bond rating. Meeting a 25-year funding period would necessitate an immediate offsetting increase in employer contributions for police officers of 10.21% effective July 1, 2025. This would bring the total employer contribution of covered police officer payroll to 51.21% (from 41%) and lower the total long-term cost from \$1.9 billion to \$874 million.

The actuarially recommended funding method would be to keep the funding period at the current 22-year projection by increasing employer contributions for police officers from 41% to 55.1% effective July 1, 2025. This would limit the amount of negative amortization, and in doing so, reduce the total cost incurred to \$311 million.

The ERS would also urge the legislature to allow the ERS to petition the IRS for a private letter ruling prior to any DROP implementation to confirm that it would not threaten the beneficial tax status currently enjoyed by the system. Included in that determination would be confirmation that stopping employee contributions does not constitute a Cash or Deferred Arrangement (CODA) prohibited for defined benefit plans. Additional regulatory concerns could involve potential violation of annual benefit limits under section 415 of the Internal Revenue Code of 1986, as amended, should the pension payment and annual return exceed the yearly limit.

The variable monthly system rate of return under the proposed DROP plan, besides exposing the DROP accounts to market volatility and increasing administrative complexity, could cause it to be considered a defined contribution plan and would subject the ERS to rules regulating such plans. Deposits made to the DROP account could be included under annual contribution limits pursuant to section 415(c) of the Internal Revenue Code of 1986, as amended.

It is believed that the DROP, as currently proposed, would constitute a benefit enhancement prohibited by section 88-99 HRS until the ERS is 100% fully funded.

Instituting an ERS operated DROP program would result in substantially increased operational and administrative costs. An ERS administered DROP plan would require amendment of our existing rules and redesign of our Pension Administration System which are constructed around our qualification as a Defined Benefit Plan under Section 401(a) of the Internal Revenue Code of 1986, as amended.

Thank you for the opportunity to provide testimony on H.B. 378.

COUNTY COUNCIL

Mel Rapozo, Chair
KipuKai Kualii, Vice Chair
Addison Bulosan
Bernard P. Carvalho, Jr.
Felicia Cowden
Fern Holland
Arryl Kaneshiro



OFFICE OF THE COUNTY CLERK

Jade K. Fountain-Tanigawa, County Clerk
Lyndon M. Yoshioka, Deputy County Clerk

Telephone: (808) 241-4188
Facsimile: (808) 241-6349
Email: cokcouncil@kauai.gov

Council Services Division
4396 Rice Street, Suite 209
Lihu'e, Kauai, Hawaii 96766

January 24, 2025

**TESTIMONY OF ADDISON BULOSAN
COUNCILMEMBER, KAUAI COUNTY COUNCIL
ON**

HB 378, RELATING TO DEFERRED RETIREMENT FOR POLICE

House Committee on Labor

Tuesday, January 28, 2025

9:00 a.m.

Conference Room 309

Via Videoconference

Dear Chair Sayama and Members of the Committee:

Thank you for this opportunity to provide testimony in SUPPORT of HB 378, Relating to Deferred Retirement for Police. My testimony is submitted in my individual capacity as a member of the Kauai County Council.

I wholeheartedly support the intent of HB 378, which would greatly affect the Kauai community.

Thank you again for this opportunity to provide testimony in support of HB 378. Should you have any questions, please feel free to contact me or Council Services Staff at (808) 241-4188 or via email to cokcouncil@kauai.gov.

Sincerely,

ADDISON BULOSAN
Councilmember, Kauai County Council

AAO:slr



ROBERT T. BISSEN JR
MAYOR

POLICE DEPARTMENT COUNTY OF MAUI

55 MAHALANI STREET
WAILUKU, MAUI, HAWAII 96793
TELEPHONE: (808) 244-6400
FAX: (808) 244-6411



JOHN PELLETIER
CHIEF OF POLICE

WADE M. MAEDA
DEPUTY CHIEF OF POLICE

January 27, 2025

Honorable Jackson D. Sayama, Chair
Honorable Mike Lee, Vice Chair
House Committee on Labor
415 South Beretania Street
Conference Room 309
Honolulu, HI 96813

SUBJECT: HB 378 – RELATED TO DEFERRED RETIREMENT FOR POLICE

Dear Chair Sayama, Vice Chair Lee, and Committee Members:

I am writing to express my strong support for House Bill 378, which establishes a Deferred Retirement Option Program (DROP) for police officers. This proposed legislation represents a critical first step in addressing the challenges of retaining experienced law enforcement officers in our state.

Law Enforcement agencies across our state (and nation) face significant difficulties in recruiting and retaining skilled officers due to the increasing demands and risks associated with their profession. House Bill 378 offers a practical solution by incentivizing experienced officers to continue their service beyond their eligible retirement dates. Through the Deferred Retirement Option Program, officers can remain on the force while earning a deferred retirement benefit, providing both financial security and stability to our law enforcement agencies. This is without addition costs to the current ERS.

Experienced officers are essential to maintaining public safety and ensuring the effective training and mentorship of new recruits. Their institutional knowledge, leadership, and dedication to serving our communities cannot be overstated. By creating a pathway for these seasoned officers to extend their careers, House Bill 378 would help bridge the gap between seasoned personnel and new officers, fostering a stronger and more cohesive law enforcement force.

Moreover, investing in programs like DROP is a cost-effective way to addressing the shortage of law enforcement personnel. Retaining experienced officers reduces turnover, minimizes recruitment and training costs, and ensures that our communities continue to benefit from a highly skilled and dedicated police force.

I humbly ask your support House Bill 378 and to prioritize the safety and well-being of our communities by ensuring that we retain the skilled and experienced officers who serve and protect us every day.

January 27, 2025

Page | 2

Thank you for your attention to this important issue. Please do not hesitate to contact me if I can provide further input or assistance in advocating for this legislation.

Sincerely,

A handwritten signature in blue ink, appearing to read 'John Pelletier', is written over the printed name and title. The signature is stylized with a large loop at the end.

JOHN PELLETIER
Chief of Police

Council Chair
Alice L. Lee

Vice-Chair
Yuki Lei K. Sugimura

Presiding Officer Pro Tempore
Tasha Kama

Councilmembers
Tom Cook
Gabe Johnson
Tamara Paltin
Keani N.W. Rawlins-Fernandez
Shane M. Sinenci
Nohelani U'u-Hodgins



Director of Council Services
David M. Raatz, Jr., Esq.

Deputy Director of Council Services
Richelle K. Kawasaki, Esq.

COUNTY COUNCIL
COUNTY OF MAUI
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793
www.MauiCounty.us

January 27, 2025

TO: The Honorable Jackson D. Sayama, Chair, and
Members of the House Committee on Labor

FROM: Alice L. Lee
Council Chair 

SUBJECT: **HEARING OF JANUARY 28, 2025; TESTIMONY IN SUPPORT OF HB378,
RELATING TO DEFERRED RETIREMENT FOR POLICE**

Thank you for the opportunity to testify in support of this important measure to establish a deferred retirement option program, or DROP, to allow police officers who are eligible for retirement to continue working.

This measure is part of the Hawai'i State Association of Counties Legislative Package. I offer this testimony on the Maui County Council's behalf.

The Maui County Council supports this measure for the following reasons:

1. The recruitment and retention of police officers are ongoing concerns for police departments across Hawai'i's counties.
2. The Maui Police Department has a vacancy rate of 25 percent, and implementing a DROP system would promote much-needed officer retention and enable experienced officers to continue serving and mentor newer officers.
3. Several police departments across the nation have achieved staffing gains through the use of a DROP.

For the foregoing reasons, the Maui County Council **supports** this measure.

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C. Kimo Alameda, Ph.D.
Mayor



Benjamin T. Moszkowicz
Police Chief

William V. Brillhante Jr.
Managing Director

Reed K. Mahuna
Deputy Police Chief

County of Hawai'i

POLICE DEPARTMENT

349 Kapi'olani Street • Hilo, Hawai'i 96720-3998
(808) 935-3311 • Fax (808) 961-2389

January 27, 2025

Representative Jackson D. Sayama, Chair
Chairperson and Committee Members
Committee on Labor
415 South Beretania Street
Honolulu, Hawai'i 96813

Dear Representative Sayama:

RE: HOUSE BILL 378, RELATING TO DEFERRED RETIREMENT FOR POLICE
COMPANION SB 470
DATE: JANUARY 28, 2025
TIME: 9:00 A.M.
PLACE: VIA VIDEOCONFERENCE (ROOM 309)

The Hawai'i Police Department **strongly supports** House Bill 378, with its purpose to establish a Deferred Retirement Option Program (DROP) for police officers. This essential legislation addresses the urgent and critical need to retain experienced law enforcement officers in our state, ensuring public safety and operational continuity.

Law enforcement agencies face ongoing challenges in recruiting and retaining skilled officers due to the demands and risks of their profession. House Bill 378 addresses this by incentivizing tenured officers to continue serving past retirement eligibility. Experienced officers are essential to maintaining public safety and ensuring the effective training and mentorship of new recruits. Their institutional knowledge, leadership, and dedication to serving our communities cannot be overstated. Creating a pathway for these seasoned officers to extend their careers, House Bill 378 would help staunch the loss of personnel through attrition, fostering a stronger and more cohesive law enforcement force.

The Deferred Retirement Option Program allows officers to fulfill their duty while deferring their earned retirement benefits, enhancing financial security and agency stability, all without additional costs to the Employees' Retirement System (ERS). Moreover, investing in programs like DROP is a cost-effective strategy to address the shortage of law enforcement personnel. Retaining experienced officers reduces turnover, minimizes recruitment and training costs, and ensures that our communities continue to benefit from a highly skilled and dedicated police force.

It is for these reasons, we urge this committee **to support** House Bill 378. Thank you for allowing the Hawai'i Police Department to provide comments relating to this bill.

Sincerely,


BENJAMIN T. MOSZKOWICZ
POLICE CHIEF



STATE OF HAWAII ORGANIZATION OF POLICE OFFICERS

Robert Cavaco
State Board President

" A Police Organization for Police Officers Only "
Founded 1971

Term of Office
1-2022 to 12-2025

January 27, 2025

The Honorable Jackson D. Sayama, Chair
The Honorable Mike Lee, Vice Chair
House Committee on Labor
Hawaii State Capitol
415 South Beretania Street
Honolulu, HI 96813

Re: **HB 378 – Relating to Deferred Retirement for Police**

Dear Chair Sayama and Vice Chair Lee:

I serve as the President of the State of Hawaii Organization of Police Officers ("SHOPO") and write to you on behalf of our Union in **strong support** of HB 378. This bill establishes a deferred retirement option program to allow qualified officers who are eligible for retirement to continue working under several conditions.

As you may know, our county police departments continue to experience a severe staffing crisis. In 2024, Honolulu Police Department alone had 425 uniformed or sworn-officer vacancies. This staffing crisis is a concern to our community that we cannot ignore. We understand the county police departments are doing what they can to immediately fill vacancies but part of the problem is that the existing and already reduced retirement benefits available to police officers do not attract a sufficient number of qualified police officer recruits, turnover is constant, new recruits enlist and then cannot make it through our training or they graduate and soon leave for other jurisdictions that offer higher compensation and take our training with them and our most experienced officers, i.e., those who are eligible to retire, are exiting at the first opportunity. Attacking these issues will require multifaceted and innovative solutions, one of which is the implementation of a deferred retirement option program ("DROP program") that eligible officers can consider opting into rather than immediately retiring. This program is aimed at encouraging our veteran officers to stay on the force longer, which will in turn, ensure that newer officers have the benefit of the leadership that veteran officers have to offer and enhance efforts to recruit qualified individuals committed to serving our Hawai'i communities. Alleviating the difficult problems of police recruitment and retention for the county police departments of Hawai'i will take many different initiatives but we feel strongly that this bill is a crucial step in the right direction.

We thank you for allowing us to be heard on this very important issue and we hope your committee will unanimously support HB 378.

Respectfully submitted,

ROBERT CAVACO
SHOPO President

RC: ja

Hawai'i State Association of Counties (HSAC)

Counties of Kaua'i, Maui, Hawai'i, and City & County of Honolulu

Website: hawaiicounties.org | Email: hsac@hawaiicounties.org



Testimony of the Hawai'i State Association of Counties

H.B. No. 378 - Support

Relating to Deferred Retirement for Police

Committee on Labor

Tuesday, January 28, 2025, 9 a.m.

The Hawaii State Association of Counties (HSAC) is a non-profit organization that represents the collective interests of Hawai'i's four counties: Kaua'i County, Maui County, County of Hawai'i, and the City and County of Honolulu. HSAC's membership includes the elected members of each county council, who work collaboratively to advocate for policies and programs that enhance the quality of life for our residents.

HSAC **supports** H.B. No. 378, which seeks to establish a deferred retirement option program (DROP) to incentivize experienced police officers to continue serving our communities for the following reasons:

1. **Recruitment and Retention Challenges:** The recruitment and retention of police officers remain significant concerns for police departments across Hawai'i's counties.
2. **Vacancy Rates and Mentorship:** High vacancy rates are a shared challenge across all counties. For example, the Maui Police Department has reported a vacancy rate of 25 percent. A DROP program would encourage experienced officers to delay retirement, offering stability in staffing levels while providing mentorship to new recruits.
3. **Proven Success in Other Jurisdictions:** DROP programs have been widely adopted in other states and municipalities, leading to tangible improvements in retention rates and department morale.

As stated in the bill's preamble, the deferred retirement option program would provide an invaluable retention tool for Hawai'i's county police departments and support the continued protection of our communities. HSAC is committed to supporting legislation that strengthens public safety and enables counties to fulfill their responsibilities effectively.

For these reasons, the Hawai'i State Association of Counties strongly supports H.B. No. 378, and requests your favorable consideration of this measure.