

LINDA LINGLE  
GOVERNOR OF HAWAII



MARIE C. LADERTA  
DIRECTOR  
CINDY S. INOUE  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT  
235 S. BERETANIA STREET  
HONOLULU, HAWAII 96813-2437

February 3, 2009

TESTIMONY TO THE

HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT  
For Hearing on February 6, 2009  
8:30 a.m., Conference Room 309

BY

MARIE C. LADERTA, DIRECTOR

**H. B. No. 1104**

**Relating to the State of Hawaii  
Deferred Compensation Plan**

TO CHAIR KARL RHOADS AND COMMITTEE MEMBERS:

My name is Marie Laderta, and I am the Director of the Department of Human Resources Development ("**DHRD**"). I am also the Chairperson of the Board of Trustees ("**Board**") for the State of Hawaii Deferred Compensation Plan ("**Plan**").

**DHRD and the Board support this administration bill.**

Currently, approximately thirty-five percent (35%) of eligible State, Maui County, Kauai County, and Hawaii County employees participate in the Plan.

The Plan's Board of Trustees is concerned that the Plan seems to have a low participation rate and younger employees are not starting to save for retirement. Industry experts and financial consultants believe that relying on retirement income from an employee's pension (i.e., the ERS) and Social Security alone may not be sufficient to keep up with rising inflation costs. These experts and consultants have

000032

concluded that individuals are spending more, saving less, and living longer lives. They, therefore, believe that there is a need for employees to take advantage of tax-deferred compensation plans to assist in saving for retirement. To achieve this, industry experts and financial consultants suggest automatically enrolling employees into these tax-deferred retirement plans.

After carefully considering this matter, the Board unanimously agreed with this suggestion, and proposes to automatically enroll all new State, Maui County, Kauai County, and Hawaii County employees into the Plan. To accomplish this, this bill proposes to deduct one per cent (1 %) of each employee's gross monthly wages and deposit the monies into a default investment option selected by the Board. However, this bill also provides flexibility to those employees who do not want to participate in the Plan by allowing these employees to opt out of the Plan within ninety (90) calendar days after the employees' first contribution is automatically deposited into the Plan. Employees who timely opt out of the plan shall have their mandatory contributions returned back to them without a penalty, subject to changing market prices and the withholding of all applicable federal and state taxes.

The Board believes that more government employees need to take advantage of this important employee benefit to assist them in saving more for retirement.

Thank you for the opportunity to testify on this matter.

Respectfully Submitted,



MARIE C. LADERTA

CHARMAINE TAVARES  
Mayor



LYNN G. KRIEG  
Director

LANCE T. HIROMOTO  
Deputy Director

COUNTY OF MAUI  
DEPARTMENT OF PERSONNEL SERVICES

200 SOUTH HIGH STREET • WAILUKU, MAUI, HAWAII 96793-2155  
PHONE (808) 270-7850 • FAX (808) 270-7969

Website: [www.mauicounty.gov/departments/Personnel](http://www.mauicounty.gov/departments/Personnel) • Email: [personnel.services@mauicounty.gov](mailto:personnel.services@mauicounty.gov)

February 3, 2009

(Electronic Transmission)

The Honorable Karl Rhoads, Chair  
Committee on Labor & Public Employment  
State House of Representatives  
Conference Room 309  
State Capitol  
415 South Beretania Street  
Honolulu, Hawaii 96813

Dear Representative Rhoads and Committee Members:

RE: H.B. 1104, RELATING TO THE STATE OF HAWAII DEFERRED  
COMPENSATION PLAN

I am Lynn G. Krieg, Director of Personnel Services, County of Maui. While we support the intent of H.B. 1104 to encourage and supplement our employees' retirement income, we do not feel that this is the appropriate time to do so given the state of the economy and the investment returns by our deferred compensation plan.

Our new hires are already informed that they will be subject to a 6% retirement contribution to the Employees Retirement System. This proposal would require an additional 1% to be automatically deducted and deposited in the deferred compensation plan. While it includes an "opt out" option, it does not guarantee coverage of any investment losses which are currently occurring more often than not.

The proposal also allows for the Board of Trustees to increase the mandatory deduction amount up to 3% without consulting with the chief human resources officer or chief financial officer of each political subdivision. We assume that the increase will only apply to new hires, but we feel the proposal is unclear and that it should be clarified that such an increase would not apply to all employees currently at the 1% deduction rate at the time of the change.

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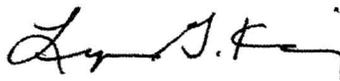
AN EQUAL OPPORTUNITY EMPLOYER

The Honorable Karl Rhoads, Chair  
Committee on Labor & Public Employment  
State House of Representatives  
Page 2  
February 3, 2009

Another concern we have re this proposal is the fact that although it appears to indicate that new hires have ninety (90) days to make a decision whether to opt out or not, "...the plan or administrator..." has forty-five (45) days to inform the employee about the plan. Retirement planning and investment decisions are not to be taken lightly. As such, if this proposal is to be considered there should be clear requirement that plan education must be handled on a face-to-face basis where the employee is able to ask questions. Also, the ninety (90) day "opt out" period should not start until after the employee has had the benefit of such meeting.

Based on the foregoing concerns we are unable to support this measure at this time.

Sincerely,

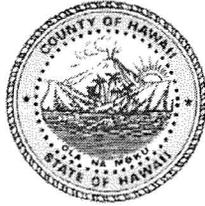


LYNN G. KRIEG  
Director of Personnel Services

cc: Mayor Charmaine Tavares

000035

Harry Kim  
Mayor



Michael R. Ben, SPHR  
Director of Human Resources

Ronald K. Takahashi  
Deputy Director of Human Resources

## County of Hawai'i Department of Human Resources

Aupuni Center \* 101 Pauahi Street, Suite 2 \* Hilo, Hawai'i 96720 \* (808) 961-8361 \* Fax (808) 961-8617  
TTY (808) 961-8619 \* Jobs Information: Job Hotline (808) 961-8618 e-mail: [jobs@co.hawaii.hi](mailto:jobs@co.hawaii.hi)

February 6, 2009

The Honorable Karl Rhoads, Chair  
And Members of the Committee on Labor & Public Employment  
House of Representatives  
State Capitol  
Honolulu, HI 96813

Dear Chairman Rhoads and Members of the Committee on Labor & Public Employment:

### **Re: HB 1104 Relating to the State of Hawai'i Deferred Compensation Plan**

I am Michael R. Ben, Director of Human Resources for the County of Hawai'i. I am testifying in general support of HB 1104. This bill will require mandatory enrollment in and contribution to the State of Hawai'i Deferred Compensation.

Generally speaking, new hires, especially our younger ones, have retirement planning as one of the furthest things from their minds at the time of hire. A requirement which would mandatorily enroll employees in the Plan would cause our new hires to pause and think about their retirement.

### **Limit mandatory contribution to 1%**

However, I am concerned about this bill providing the Board of Trustees with the authority to triple the mandatory contribution amount (1% to 3%). While a 3% mandatory contribution may seem to be a small percentage, we cannot lose sight of the fact that many individuals will count on every cent of their pay check to make ends meet.

### **Fully educate Plan participants by human interaction**

Also, I firmly believe that plan representatives should be required to meet with all new hires within 45 days of their hire to personally educate and explain the features and benefits of the deferred compensation program so that these new hires may make an intelligent decision as to whether to opt out of the plan within the allotted period for doing so. It would not suffice to have educational

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000036

The Honorable Karl Rhoads, Chair  
And Members of the Committee on Labor & Public Employment  
February 6, 2009  
Page 2 of 2

materials provided to these new hires or have them seek information on the website or have this education done by telephone conversation. It would much proactive to have face to face contact and discussion by plan representatives with our employees. Doing so will ensure that our employees are fully informed about the features and benefits to remaining in the Plan and answer their questions such as,

Why do I need to be in the Deferred Compensation Plan when I'll receive ERS and social security benefits when I do retire?

**Provide for a specific date by which an individual must opt out of the Plan.**

I believe too that the bill needs to be clearer was to when the employee must withdraw from the Plan. The bill now provides that

...any decision to opt out of participating in the plan shall be clearly communicated in writing to the administrator **within ninety calendar days after the employee's first contribution is automatically deposited in the plan.**"(emphasis provided)

I dare say that I could not tell you when my Plan contributions are actually deposited in the Plan.

It would be clearer to pick another point, say ninety days from the employee's date of hire. It would be even better for the Plan Administrator to specifically advise the employee the date certain the employee must exercise his opt out of the Plan.

With these concerns addressed, I would fully support HB 1104.

Thank you.

Sincerely,



Michael R. Ben, SPHR  
Director of Human Resources

000027