

TESTIMONY BY WESLEY K. MACHIDA  
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STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
HOUSE BILL NO. 1142

FEBRUARY 25, 2011

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Oshiro and Members of the Committee:

H.B. 1142 increases the retirement age eligibility for State and county government employees who become members of the Employees' Retirement System (ERS) after June 30, 2012. The ERS Board of Trustees strongly supports this bill.

This bill addresses current ERS financing issues by reducing the long-term costs of ERS benefits. The ERS Board would accept a contribution only solution to current ERS financing issues. However, because the necessary increases in employer contributions may not be feasible at this time, the ERS Board of Trustees has been working with its Actuary to design a benefit structure for new employees that reduces the long-term costs of the ERS, and also provides a reasonable retirement package to State and county employees when combined with other retirement vehicles such as Social Security. This bill is the result of those efforts.

Changes to all employee groups are being proposed as follows:

Employee Group	Current Retirement Age	Proposed Retirement Age	Estimated Dollar Impact to Contributions
All Other Employees	55 or 62	60 or 65	\$16.9 million
Police & Fire	No age requirement with 25 years of service	55	\$3.1 million
Elected Officials	No age requirement with 10 years of service	55	\$0.1 million

The change to the retirement age eligibility will result in cost savings, which will help to prevent further increases to the

employer contribution requirements that would otherwise be required to amortize the ERS's UAAL within a 30-year period. The following cost savings (or reduced contribution savings) estimated by the ERS Actuary for the next 5 fiscal years are anticipated if the retirement age change for new hires is implemented:

FY 2012:	\$20.1 million
FY 2013:	\$20.7 million
FY 2014:	\$21.4 million
FY 2015:	\$22.0 million
FY 2016:	\$22.8 million

The cost savings shown above are based on the stand alone passage of H.B. 1142 and do not reflect any of the cost savings which may occur if other coordinated legislation is enacted.

The passage of this bill, along with H.B. 1037 and H.B. 1038 will result in employer contribution rates stabilizing over the next several years as follows:

All Other Employees (current rate at 15% of payroll; 6% for normal cost and 9% for unfunded liability):

FY 2012:	15%
FY 2013:	15.5%
FY 2014:	16%
FY 2015:	16.5%
FY 2016:	17%
FY 2017:	17%

Police and Fire (current rate at 19.7% of payroll; 6% for normal cost and 13.7% for unfunded liability):

FY 2012:	19.7%
FY 2013:	22%
FY 2014:	23%
FY 2015:	24%
FY 2016:	25%
FY 2017:	25%

Without the passing of H.B.1038 and H.B. 1142, the employer contribution rates would require immediate increases in FY 2012 from 15% to 17% for all other employees and from 19.7% to 23% for Police & Fire to meet the 30-year amortization period for paying down the UAAL. These rates would be expected to increase to 19% for all other employees and 27% for Police and Fire over

( the next several fiscal years as the remaining investment losses from fiscal year 2009 are recognized.

As a result, the ERS Board of Trustees strongly supports the passage of H.B. 1142. Thank you for the opportunity to testify on this important measure.