

TESTIMONY BY WESLEY K. MACHIDA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR  
ON  
SENATE BILL NO. 1089

February 17, 2015

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Senate Bill No. 1089 requires an employee receiving worker's compensation benefits to have retirement contributions deducted from those benefits. The measure also establishes deadlines for the following: 1) for public employees who join the Employees' Retirement System (ERS) after June 30, 2016, to claim membership credit for previous service and for military service credit; and 2) for starting payments to acquire membership service credit for previous service, military service and unpaid leave based on actuarial cost. And finally, the bill requires the cost for purchasing additional service credit be based on an actuarially neutral calculation and sets a time limit to initiate payment by the member.

The Department of Budget and Finance supports this Administrative sponsored measure which will help the ERS to reduce its unfunded actuarial accrued liability.

TESTIMONY BY KANOE MARGOL  
INTERIM EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM OF THE STATE  
OF HAWAII

TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR  
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SENATE BILL NO. 1089

FEBRUARY 17, 2015, 8:45 a.m.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Keith-Agaran, Vice Chair Shimabukuro and Members of the Committee,

The amendments proposed in S.B. 1089 will assist the Employees' Retirement System (ERS) in improving and protecting its funded status by properly funding membership service credit for Contributory and Hybrid members.

The Board of Trustees of the ERS strongly supports this proposal.

This bill proposes to amend section 78-25, Hawaii Revised Statutes, to require employees who are receiving workers' compensation benefits deduct retirement contributions from benefits received. When an employee is approved for workers' compensation wage loss replacement benefits, the employee will be paid up to their full salary for the period of their approved industrial injury leave. In contrast to other types of leaves, the employee will earn full retirement service credit for this period. Contributory and Hybrid employees have the option, but are not required, to deduct retirement contributions from these wage replacement benefits. This proposal will require that contributions are made contemporaneously with the payment of compensation, thereby assuring that the service credit for this period is at least partially funded by the employee.

In addition, S.B. 1089 proposes to add a new section to Chapter 88, and amend sections 88-59 and 88-324, Hawaii Revised Statutes to establish deadlines for: (1) new members of the Contributory and Hybrid plans of the Employees' Retirement System to claim membership service credit for previous service and for previous military service; and (2) for members to initiate payment for previous service, previous military service, and unpaid leave, and to provide for an actuarially neutral cost for the acquisition of service.

The acquisition of previous or military service by Contributory and Hybrid members of the ERS is voluntary and currently may be claimed and purchased at any time during the employee's employment. This additional service credit will increase the employee's retirement pension, and at times will also allow the employee to retire earlier than their expected retirement date. Although earned membership service is supported by employee and employer contributions for the duration of a member's employment, acquired service is not. Previously forfeited service may be acquired by the Contributory member at any time during the employee's employment at a cost based on the employee's salary at the time of purchase. Previous military service may be acquired at any time after service eligibility requirements are met, and is also based on the employee's salary at the time of purchase. This amount is significantly lower than the actuarial cost which would be calculated based on the employee's age, retirement eligibility and projected retirement benefits over time. Furthermore, when an employee elects to pay for the purchase of service just prior to retirement, the system does not receive the investment returns that the

system would have received if the payments had been made earlier. As a result of payments that are insufficient to cover the actual cost of the increased benefits and that do not allow the system to realize investment returns over time to defray the cost of the increased benefits, the increase in the member's retirement benefits are borne by the employers and current and future members of the Employees' Retirement System.

The proposed amendments will require that the member claim for previous service or military service within one year of enrollment or eligibility. After June 30, 2020, the cost to purchase membership service will be based on an actuarially neutral cost. The delayed implementation date will allow the system to obtain confirmation from the Internal Revenue Service that the change in the purchase price amount for acquiring previous service and military service will not be considered a change to the employer pick up plan previously approved by the Internal Revenue Service.

Thank you for allowing me to testify on this important legislation.