

TESTIMONY BY THOMAS WILLIAMS
EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII

TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON

HOUSE BILL NO. 2124

FEBRUARY 5, 2016, 9:30 A.M.

RELATING TO INVESTMENT PERSONNEL FOR THE EMPLOYEES' RETIREMENT SYSTEM

Chair Nakashima, Vice Chair Keohokalole and Members of the Committee,

H.B. 2124 would allow the Board of Trustees of the Employees' Retirement System of the State of Hawaii (ERS), through its executive director, to appoint one or more investment professionals, investment specialists and investment support staff, who may be exempt from chapters 76 and 89, Hawaii Revised Statutes.

Successful investment of the funds of the Employees' Retirement System is one of the primary pathways to the stability and sustainability of the system. A member's retirement benefit is funded through a combination of employer and employee contributions and investment earnings. Seventy to eighty percent of benefits provided are attributable to investment earnings. The system currently has over fourteen billion dollars in domestic and international investments and decisions made by the Board of Trustees of the system concerning these investments are critical to the current and future funding of the system, which has an unfunded actuarial accrued liability of eight billion seven hundred million dollars and a funded ratio of 62.2% as of June 30, 2014.

Although the members of the Board of Trustees, as fiduciaries, are responsible for the general management of the system's assets and implementation of the system's investment policy, they rely heavily on internal and external investment experts for advice. The role of assisting and advising the board in managing the system's assets falls primarily with the system's investment staff consisting of a Chief Investment Officer, two strategy specific officers (liquid and illiquid investments), a risk officer and two Investment Specialists who are civil service employees.

The current staffing structure is not expected to meet our long term needs. Staffing will need to be augmented given the complexity of portfolios our size and the dynamics of modern financial markets. The investment portfolio has increased its allocations to equity products, covered calls, real return assets, and private equity. In addition, the ERS is transitioning its portfolio to a risk-based asset allocation program, the implementation of which will require additional attention, monitoring, review and rebalancing. This rebalancing will be outsourced initially at considerable expense, and we would like eventually to bring the function in-house.

Dedication to these investments requires experience and expertise of seasoned professionals. Investment office staff provides the Board with ongoing tactical and strategic insights into the risk-return trade-offs of multiple asset class investments. Establishing our Investment

Specialists as true members of the team will help with retention and provide a career path for these talented staff members. Any associated costs will be derived solely from ERS monies.

The Board of Trustees of the Employees' Retirement System supports this legislation.

Thank you for this opportunity to provide testimony on H.B. 2124.



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION

AFSCME Local 152, AFL-CIO

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The Twenty-Eighth Legislature, State of Hawaii
House of Representatives
Committee on Labor and Public Employment

Testimony by
Hawaii Government Employees Association

February 5, 2016

H.B. 2124 – RELATING TO INVESTMENT
PERSONNEL OF THE EMPLOYEES’
RETIREMENT SYSTEM

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly opposes the purpose and intent of H.B. 2124, which excludes positions from collective bargaining and expands the exemption from civil service within the Employees’ Retirement System (ERS).

As drafted, this legislation allows the ERS to exempt from civil service and exclude from collective bargaining investment professionals and support staff, which creates a government workplace of “at will” employment with minimal employee rights. Additionally, H.B. 2124 grants the ERS Board of Trustees the authority and sole discretion to exempt and exclude – a power that we respectfully argue should remain vested with the Legislature. Collectively, the expansion of excluding and exempting positions in state government is in direct conflict with the Article XVI, Section 1 of the Hawaii State Constitution and Chapters 76 and 89, HRS, which establish a merit-based civil service system free from coercive political influences and permits collective bargaining for public employees.

Thank you for the opportunity to testify in strong opposition of H.B. 2124.

Respectfully submitted,

Randy Perreira
Executive Director