WRITTEN ONLY

DAVID Y. IGE
GOVERNOR

WESLEY K. MACHIDA
DIRECTOR

RODERICK K. BECKER
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

TESTIMONY BY WESLEY K. MACHIDA DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE TO THE SENATE COMMITTEE ON WAYS AND MEANS ON HOUSE BILL NO. 2606, H.D. 2, S.D. 1

April 4, 2016
2:00 p.m.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

House Bill No. 2606, H.D. 2, S.D. 1, amends Chapter 88, Hawaii Revised Statutes (HRS), by adding a new section to Subpart C of Part II, to establish a retirement benefit incentive for public employees, otherwise eligible to retire, whose positions are subject to layoff due to the consolidation or abolition of functions, or the privatization of the functions of the position. This measure will sunset on July 1, 2018.

The Department of Budget and Finance strongly opposes this bill that will provide an enhancement to retirement benefits. This measure provides retirement-eligible employees with a retirement incentive of 1/12 of a year for each year of service, up to a maximum of three years of service credit. The cost for this incentive is unknown at this time but could be significant. Furthermore, it is unclear as to the need for a retirement benefit enhancement for someone who is already eligible to retire.

In addition, this benefit enhancement is counter to Section 88-99, HRS, which places a moratorium on benefit enhancements until such time as the actuarial value of the Employees' Retirement System's (ERS) assets is 100% of the ERS' unfunded actuarial accrued liability (UAAL). This bill will only add to the ERS' UAAL by enhancing benefits to employees who are already eligible to retire.

No. 1 Capitol District Building, 250 S. Hotel Street, Honolulu, Hawaii 96813

DAVID Y. IGE
GOVERNOR

THOMAS WILLIAMS
EXECUTIVE DIRECTOR

KANOE MARGOL
DEPUTY EXECUTIVE DIRECTOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

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

TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON

HOUSE BILL NO. 2606, H.D. 2, S.D. 1

APRIL 4, 2016, 2:00 P.M.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Tokuda, Vice Chair Dela Cruz, and Members of the Committee,

H.B. 2606, H.D. 2, S.D. 1 provides for a retirement benefit incentive for members of the Employees' Retirement System (ERS) who are eligible for retirement and serve in positions that have been identified for layoff due to the consolidation or abolition of functions, or the privatization of the functions of the positions. These members would be eligible for additional retirement service credit of up to three years.

The Board of Trustees of the Employees' Retirement System (ERS) opposes this proposal.

The board is already grappling with how to deal with the huge negative funding situation created by Act 103, SLH 2015. The loss to the ERS of ongoing employer and employee contributions, even absent of other special provisions, is forecast to increase the plan's unfunded liability substantially. This increase in the unfunded liability may result in higher contribution requirements or the maintenance of existing contributions for a longer period of time.

The additional service credit provided by H.B. 2606, H.D. 2, S.D.1 potentially increases an employee's retirement benefit by an additional 3.75 to 6 percent and violates Section 88-99, HRS, regarding the moratorium on benefit enhancements until the ERS is fully funded, while providing no funding for this "special retirement benefit."

The ERS actuary estimates that this enhanced retirement benefit will add $4.9 million to the unfunded actuarial accrued liability of the ERS. This pales in comparison however, to the expected impact on ERS funding due to the loss of payroll for the employees and the employer due to Act 103, SLH 2015. With the loss of approximately $100 million in covered payroll, the ERS will receive $11 to $15 million less in contributions in fiscal year 2017 towards the payment of its unfunded actuarial accrued liability. The present value of these lost future contributions over the next 26 years is approximately $213 million. In order to make the ERS whole, the contribution rates for the remaining employers would need to increase by an additional .39 percent.

Other provisions of this bill are also problematic. (1) This benefit incentive is not limited to employees who are affected by Act 103, SLH 2015. (2) It is unclear whether the identified members must lose their position as part of a layoff when their position is privatized. In other words, is the member entitled to the retirement benefit incentive even if the member remains employed with the privatized entity? (3) It is also unclear whether the member would be eligible to retire and commence their benefit from ERS even if they have continued employment with the private entity or in another State or county position, this would seem a superfluous benefit if they have continued employment. The identified member could also take the retirement benefit incentive, retire, and then immediately return to work in another ERS covered position. (4) This bill would also set a precedent for an ERS member to receive service credit for "time" in which the member had not actually been employed by the State or a county, serving in the military, or otherwise engaged in a government function.

In opposing H.B. 2606, H.D. 2, S. D. 1, the ERS Board reinforces its stance that any benefit provided, however well intended, must include the funding necessary to cover its cost and/or amortize the cost of the benefit over time thereby avoiding any increase in the plan's unfunded liability.

On behalf of the Board of Trustees and staff of ERS we wish to thank you for the opportunity to testify.