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

TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON

HOUSE BILL NO. 602

FEBRUARY 13, 2015, 9:30 A.M.

RELATING TO UNFUNDED LIABILITIES

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

H.B. 602 proposes to establish an unfunded liabilities task force to develop recommendations to address state and county unfunded liabilities, including the unfunded liabilities of the Employees' Retirement System (ERS).

Although they appreciate its intent, the ERS Board of Trustees opposes this proposal.

During the past five legislative sessions, including this 2015 legislative session, the Board has introduced several proposals to deal with the pension and unfunded liabilities of the ERS. They were successful in having four proposals signed into law:

1. **Act 29/2011: Moratorium on benefit enhancements until the ERS is 100% fully funded.** Since the moratorium prevents increased costs resulting from benefit enhancements, it will particularly help with reducing (or limiting) increases in the pension liability while the unfunded accrued liability is being paid down.

2. **Act 163/2011: Pension reforms for new members after June 30, 2012.** This Act applies to all categories of new employees, and does the following:
   - Lowers benefit multipliers for all groups
   - Lowers post retirement percentage
   - Lowers the member's contribution account interest rate
   - Increases age eligibility for retirement
   - Increases average final compensation period from three to five years
   - Increases years of service eligibility period for retirement
   - Increases employee contribution rate

   These changes only impacted new employees from July 1, 2012; therefore, there is not yet a significant impact on the total unfunded liability. However, as reported in the 2014 actuarial valuation, these changes did help lower the funding period of the ERS from 28 to 26 years. In addition to the above pension reforms, Act 163 increased the employer contribution rate through FY 2016.

3. **Act152/2012: Change in the definition of "compensation" for new members after June 30, 2012.** New members from July 1, 2012 and later may only have their base salary and a few non-base pay items included in the calculation of their retirement

benefit. Currently all pay, including overtime pay, is used in the benefit calculation. This Act reduced retirement benefits for these new members.

4. **Act 153/2012: Employer assessment for significant increases in other pay during the last several years of employment.** This Act allows the ERS to assess employers for their employees found to increase their compensation levels significantly within the last few years of employment. As it was effective from July 1, 2012, the ERS pension accumulation fund will be increased in excess of $14 million charged to employers who have been assessed for the cost attributable to these increased retirement benefits.

The Board and staff of the ERS have addressed, and will continue to address, the unfunded liability of the System and believes that the establishment of a task force is unnecessary. As the ERS is a multi-employer plan, any reduction in the unfunded liability of the ERS will have a positive effect the liabilities of all State and county employers. In its fiduciary capacity, the Board is committed to keeping the Fund solvent and sustainable, and having the ERS fully funded in the shortest period possible. This will ensure that all current and future retirees and beneficiaries will be paid all of their promised pension benefits.

Thank you for the opportunity to testify on this important measure.

WRITTEN ONLY

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 602

February 13, 2015

RELATING TO UNFUNDED LIABILITIES

House Bill No. 602 establishes the unfunded liabilities task force to develop recommendations to address State and county unfunded liabilities.

The Department of Budget and Finance believes the need to create the unfunded liabilities task force may not be necessary at this point, as major steps have already been taken by the Legislature to address the unfunded actuarial accrued liabilities (UAAL) of both the Employees' Retirement System (ERS) and the Hawaii Employer-Union Health Benefits Trust Fund (EUTF).

Major steps enacted to reduce the UAAL of the ERS include: 1) a moratorium on benefit enhancements (Act 29, SLH 2011) unless the system assets are 100% of the UAAL; 2) increases in employer contribution rates to: 16.5% in FY 15 and 17% in FY 16 (Act 163, SLH 2011); 3) pension reforms that reduce the State's cost for employees hired after June 30, 2012 (Act 163, SLH 2011); and 4) instituting anti-spiking provisions to help reduce unfunded benefits (Act 153, SLH 2012).

Major steps enacted to reduce the UAAL of the EUTF include the passage of Act 268, SLH 2013, which: provided for the actuarial pre-funding of the State's Other Post-Employment Benefits (OPEB) by creating an irrevocable OPEB trust fund to receive public employer contributions; and required all public employers to make actuarially-based contributions to fund their obligations, beginning with 20% of the annual required contribution (ARC) in FY 15 and rising to 100% of the ARC in FY 19. The shift from a pay-as-you-go to pre-funding reduced the State's OPEB UAAL from $13.6 billion (as of June 30, 2011) to $8.5 billion (as of June 30, 2013). The Legislature also appropriated $100 million in FY 14 towards the State's OPEB liability requirement in advance of the passage of Act 268, SLH 2013.

Further, it is our understanding that both Boards of Trustees for the ERS and the EUTF are committed to reforms to reduce their UAALs.

House Committee on Labor & Public Employment
Friday, February 13, 2015
9:30 a.m.

HB 602, Relating to Unfunded Liabilities.

Dear Chairman Nakashima and Committee Members:

The University of Hawaii Professional Assembly opposes this measure. It is unnecessary and undermines activities already implemented by the Employee Retirement System to address unfunded liabilities.

UHPA encourage the Committee to defer this measure.

Respectively submitted,

Kristeen Hanselman
Associate Executive Director

UNIVERSITY OF HAWAII
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