

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 HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
SENATE BILL NO. 2077, S.D. 1

March 18, 2016
10:00 a.m.

RELATING TO SEPARATION BENEFITS

Senate Bill No. 2077, S.D. 1, authorizes public employees facing position abolishment, reduction-in-force (RIF), or workforce restructuring to opt to receive either voluntary severance benefits or a special retirement benefit in lieu of exercising any RIF rights. This measure will sunset on July 1, 2018.

The Department of Budget and Finance strongly opposes this bill.

First, based on the provisions of this measure, the cost could be significant as all affected employees would qualify (in the case of the Hawaii Health Systems Corporation's Maui Region Health Systems transitioning to Maui Health Systems) for the voluntary severance benefit or special retirement benefit. The provisions of the bill appear to be an overly broad approach to address a situation where only a limited number of the estimated 1,479 affected employees may not be re-employed by Maui Health Systems. A more cost effective solution may be looking at inter-jurisdictional employment agreements to address those who may not retain employment with Maui Health Systems.

A second concern is that previous RIFs were implemented without offering employees severance packages or retirement benefit enhancements. The provisions of this bill offer an open-ended package of separation benefits for any future RIF.

Third, the cost of paying for voluntary severance benefits or special retirement benefits nullifies the intent of a RIF, which is to reduce the size and cost of government. While the voluntary severance package would only be a one-time cost, retirement benefit enhancements have a long-term cost to the State and result in a higher unfunded actuarial accrued liability (UAAL) for the Employees' Retirement System (ERS). Although the special retirement benefits are exempt from Section 88-99 and the bill requires that the State pay the ERS the additional actuarial present value of the benefit enhancements over a period of five years, the benefit enhancement is counter to the purpose of Section 88-99, Hawaii Revised Statutes, which places a moratorium on benefit enhancements until such time as the actuarial value of the ERS' assets is 100% of the ERS' UAAL. Each exception from Section 88-99 increases the ERS' UAAL and affects the efficacy of the moratorium.

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 HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON**

SENATE BILL NO. 2077, S.D. 1

MARCH 18, 2016, 10:00 A.M.

RELATING TO SEPARATION BENEFITS

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

S.B. 2077, S.D. 1 authorizes the State executive branch and other jurisdictions to offer a voluntary severance or special retirement benefit to its employees who elect to separate from service when their positions are identified for abolishment, affected by reductions-in-force or workforce restructuring, including privatization.

The Board of Trustees of the Employees' Retirement System (ERS) has not yet taken a formal position on the "special retirement benefit" offered by this proposal. However, the ERS Board has been unwavering in its position that any benefit provided 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.

The loss to the ERS of ongoing employer and employee contributions as envisioned by Act 103, SLH 2015, 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 ERS staff has the following technical comments and concerns regarding Section 2 of S.B. 2077 S.D. 1:



Employees' Retirement System
of the State of Hawaii

1. A preliminary review of the special retirement benefits provided by S.B. 2077, S.D. 1, by the ERS actuary determines that the actuarial cost of these enhancements would be approximately \$11.2 million. The ERS would expect to see a decrease in its unfunded actuarial accrued liability (UAAL) of approximately \$35 million due to the termination of the impacted employees. However, the expected impact on ERS funding due to the loss of payroll for the employees and the employer will be significantly greater. 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 UAAL. 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.
2. This bill should be revised to make it clear that any retirement provisions would only be applicable to employees affected by Act 103, Session Laws of Hawaii 2015.
3. §__-3 uses the term “vested member of the employees’ retirement system.” There is no such term in chapter 88. This term should be defined in the bill. For example: “A member of the employees’ retirement system of the State of Hawaii who has sufficient credited service to be eligible to receive the service retirement benefit in effect under section 88-74, 88-282, or 88-332, upon becoming eligible under section 88-73, 88-281 , or 88-331, respectively, to receive a retirement allowance.” (ERS staff would like to clarify that under this definition these terminated members would eventually have been eligible to receive a retirement allowance when the members reach the statutory retirement age without the special retirement allowance.)
4. §__-3, subsection (c): This subsection of special retirement benefit qualification criteria does not take into account the different “tiers” within each class of ERS members. Class A and H members who become members prior to July 1, 2012 have different retirement requirements and retirement benefits than Class A and H members who become members after June 30, 2012. For example, pre-7/1/2012 class A members with sufficient years of credited service can retire at 55. The respective retirement age for post-6/30/2012 members is 60. A post-6/30/2012 class A member would get a bigger “break” (qualifying 10 years earlier) than pre-7/1/2012 class A member if the early retirement age for both members is 50.
If the intent of this bill is to provide equivalent early (within 5 years of normal eligibility) retirement benefits for members of each class and tier, the retirement criteria must be addressed to each affected group specifically. Please refer to the attached suggested revisions to §__-3 subsection (c).

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

S.B. 2077, S.D. 1. (Special retirement benefit requirements suggested amendment.)

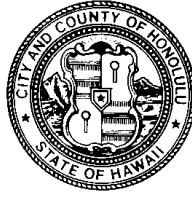
§ -3 Special retirement benefit.

"(c) Notwithstanding the age and length of service requirements of sections 88-73, 88-281, and 88-331, an employee member shall qualify for the special retirement benefit if, on the employee's retirement date, the employee meets one of the following criteria:

- (1) Has at least 5 years of credited service as a contributory class A or B member and is at least fifty years of age;
- (2) Has at least 25 years of service as a contributory class A or B member irrespective of age;
- (3) Has at least 10 years of service as a noncontributory class C member and is at least fifty-seven years of age;
- (4) Has at least 30 years as a noncontributory class C member and is at least fifty years of age;
- (5) A class H member who became a member prior to July 1, 2012, has at least 5 years of service and is at least fifty-seven years of age;

- (6) A class H member who became a member prior to July 1, 2012, has at least 30 years of service and is at least fifty years of age;
- (7) A class H member who became a member after June 30, 2012, has at least 10 years of service and is at least sixty years of age;
- (8) A class H member who became a member after June 30, 2012, has at least 30 years of service and is at least fifty-five years of age;"

KIRK CALDWELL
MAYOR



NELSON H. KOYANAGI, JR.
DIRECTOR

GARY T. KUOKAWA
DEPUTY DIRECTOR

**Testimony of
NELSON H. KOYANAGI, JR.
Director of Budget and Fiscal Services
City and County of Honolulu**

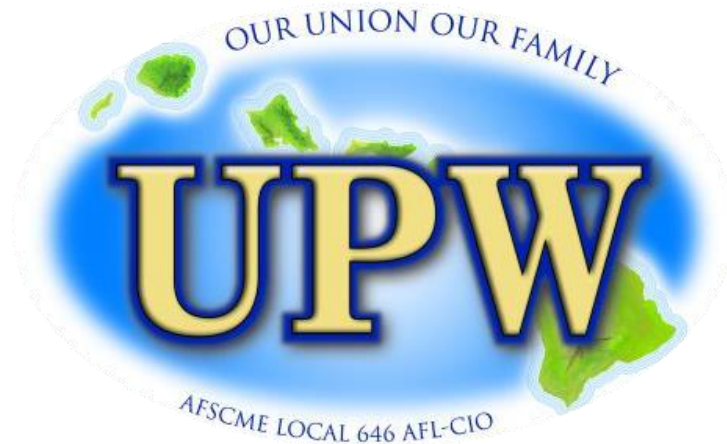
**Before the House Committees on
LABOR AND PUBLIC EMPLOYMENT
And
HUMAN SERVICES
Friday, March 18, 2016
10:00 a.m.
State Capitol, Conference Room 309**

**In consideration of
SENATE BILL 2077, SD1
RELATING TO SEPARATION BENEFITS**

The City and County of Honolulu (City) has concerns regarding Senate Bill 2077, SD1, which authorizes the offering of voluntary severance or a special retirement benefit to public employees who elect to separate from service when their positions are identified for abolishment or when they are affected by a reduction-in-force or workforce restructuring plan, including privatization.

The City is concerned about the increase in unfunded liability to the Employee Retirement System (ERS) resulting from the bill. We agree with the position of the ERS Board that any benefit provided must include the funding necessary to cover its cost and/or to amortize the cost of the benefit over time thereby avoiding any increase in the plan's unfunded liability. The employer who offers the voluntary severance or special retirement benefit to its employees should provide the necessary additional funding.

Thank you for the opportunity to testify on Senate Bill 2077, SD1.



The Hawaii State House of Representatives
The Twenty-Eighth Legislature
Regular Session of 2016

COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT

The Honorable Mark Nakashima, Chair
The Honorable Jarrett Keohokalole, Vice Chair

COMMITTEE ON HUMAN SERVICES

The Honorable Dee Morikawa, Chair
The Honorable Bertrand Kobayashi, Vice Chair

DATE OF HEARING: Friday, March 18, 2016
TIME OF HEARING: 10:00 a.m.
PLACE OF HEARING: Conference Room 309

TESTIMONY ON SB2077, SD1 RELATING TO SEPARATION BENEFITS

By Dayton M. Nakanelua,
State Director of the United Public Workers,
AFSCME, Local 646, AFL-CIO

My name is Dayton M. Nakanelua, state director of the United Public Workers, AFSCME, Local 646, and AFL-CIO (UPW). The UPW is the exclusive representative for approximately 11,000 public employees, which include blue collar, non-supervisory employees in Bargaining Unit 01 and institutional, health and correctional employees in Bargaining Unit 10, in the State of Hawaii and various counties.

SB2077, SD1 authorizes public employees facing position abolishment, reduction in-force, or workforce restructuring to opt to receive either voluntary severance benefits or a special retirement benefit in lieu of exercising any reduction-in-force rights. The UPW **strongly supports** this measure.

Thank you for the opportunity to submit this testimony.

LABtestimony

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, March 17, 2016 1:03 PM
To: LABtestimony
Cc: KronerChuck@yahoo.com
Subject: Submitted testimony for SB2077 on Mar 18, 2016 10:00AM

SB2077

Submitted on: 3/17/2016

Testimony for LAB on Mar 18, 2016 10:00AM in Conference Room 309

Submitted By	Organization	Testifier Position	Present at Hearing
Chuck Kroner	Individual	Support	No

Comments: Since the employees of Maui Region of HHSC are now faced with uncertain futures, passage of these bills is crucial. I am one of those with less than a year to be eligible for my hard earned retirement, & now thru no fault of my own, my future & financial stability are now at risk. These bills have a huge impact to mitigate some of the fallout of Act 103 that privatizes the hospitals on Maui County.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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LABtestimony

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, March 16, 2016 10:38 AM
To: LABtestimony
Cc: goodhone@gmail.com
Subject: Submitted testimony for SB2077 on Mar 18, 2016 10:00AM

SB2077

Submitted on: 3/16/2016

Testimony for LAB on Mar 18, 2016 10:00AM in Conference Room 309

Submitted By	Organization	Testifier Position	Present at Hearing
Virgil Medeiros	Individual	Support	No

Comments: I ask this committee to seriously consider passage of this measure to assist the Maui region hospital employees whose jobs will be privatized through no fault of their own. They have dedicated themselves to serving their community and it would be unjust to ignore their situation.

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LABtestimony

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, March 17, 2016 12:03 PM
To: LABtestimony
Cc: Rose3Chas9@aol.com
Subject: Submitted testimony for SB2077 on Mar 18, 2016 10:00AM

SB2077

Submitted on: 3/17/2016

Testimony for LAB on Mar 18, 2016 10:00AM in Conference Room 309

Submitted By	Organization	Testifier Position	Present at Hearing
Rose Kroner	Individual	Support	Yes

Comments: I have been employed for 25 years & implore you to pass this legislation that provides for early retirement & separation benefits. I have dedicated my career to the health & welfare of Maui County, & now that my job is abolished by Act 103, I should not be penalized for that.

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HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

RANDY PERREIRA, Executive Director • Tel: 808.543.0011 • Fax: 808.528.0922

LATE

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

Testimony by
Hawaii Government Employees Association

March 18, 2016

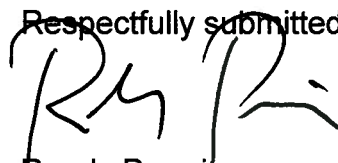
S.B. 2077, S.D. 1 – RELATING TO
SEPARATION BENEFITS

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly supports the purpose and intent of S.B. 2077, S.D. 1. Under this bill, employees whose positions are privatized by an action of state or county government will become eligible for a voluntary severance payment or a special retirement benefit.

This legislation is similar to the separation incentive program that previously existed in Hawaii Revised Statutes. As drafted, S.B. 2077, S.D. 1 offers employees two basic options: a severance payment or special retirement benefits. Within the Hawaii Health Systems Corporation Maui Region privatization there are employees at different life stages and this bill addresses that complexity. Employees with only a few years of creditable service with the HHSC may opt for a severance payment, or for those who have more years of service, but need additional years before they can retire, there is a special retirement benefit to meet that important need. Without such assistance, employees may face economic hardship that will be permanent through no fault of their own. We cannot allow that to occur.

Thank you for the opportunity to testify in support of S.B. 2077, S.D. 1.

Respectfully submitted,



Randy Perreira
Executive Director

LATE

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, March 17, 2016 7:57 PM
To: LABtestimony
Cc: mayd005@hawaii.rr.com
Subject: Submitted testimony for SB2077 on Mar 18, 2016 10:00AM

SB2077

Submitted on: 3/17/2016

Testimony for LAB on Mar 18, 2016 10:00AM in Conference Room 309

Submitted By	Organization	Testifier Position	Present at Hearing
David May	Individual	Support	Yes

Comments: I ask on behalf of the hundreds of dedicated Maui Region workers that these measures be passed. Time can never be replaced or even valued by any monetary amount. Many of us have worked in the most vibrant and progressive health care institution in HHSC. Maui Memorial has gone past expectations to provide care to all who come for any level of care. Many have said we care for all like "family." MMMC has grown from a country hospital to a Medical center. This is only due to the people who work there and have provided the services and met the day to day challenges. An Investment of years from all employees cannot be replaced in another system. We have worked here for our futures. We need your support as we have supported you to gain your political goals in the recent past. Our futures depend on your actions. Thank you for your diligent consideration.

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