

DAVID Y. IGE  
GOVERNOR



WRITTEN ONLY

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**

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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  
SENATE BILL NO. 2077, S.D. 1**

March 2, 2016  
9:30 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 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 SENATE COMMITTEE ON WAYS AND MEANS  
ON**

**SENATE BILL NO. 2077, S.D. 1**

**MARCH 2, 2016, 9:30 A.M.**

**RELATING TO SEPARATION BENEFITS**

Chair Tokuda, Vice Chair Dela Cruz 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.

As of the submittal of this testimony, the Board of Trustees of the Employees' Retirement System (ERS) has not yet reviewed S.B. 2077, S.D. 1 and therefore 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. The ERS actuary is reviewing the cost of the special retirement benefit. 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.

H.B. 2446, H.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;"



**HAWAII GOVERNMENT EMPLOYEES ASSOCIATION**

AFSCME Local 152, AFL-CIO

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

**The Twenty-Eighth Legislature, State of Hawaii  
The Senate  
Committee on Ways and Means**

**Testimony by  
Hawaii Government Employees Association  
March 2, 2016**

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

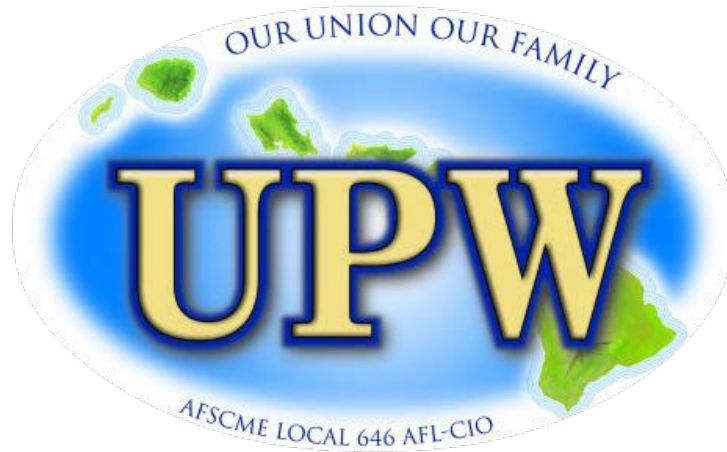
The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly supports the purpose and intent of S.B. 2077, S.D. 1. Under this bill employees whose positions are privatized by an action of state or county government will become eligible for a voluntary severance payment or a special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

This legislation is similar to the separation incentive program that previously existed in the 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, which can be applied to continued health insurance coverage through the Hawaii Employer-Union Health Benefits Trust Fund. 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**



The Hawaii State Senate  
The Twenty-Eighth Legislature  
Regular Session of 2016

COMMITTEE ON JUDICIARY AND LABOR  
The Honorable Gilbert S.C. Keith-Agaran, Chair  
The Honorable Maile S.L. Shimabukuro, Vice Chair

DATE OF HEARING: Tuesday, February 9, 2016  
TIME OF HEARING: 9:15 a.m.  
PLACE OF HEARING: Conference Room 016

**TESTIMONY ON SB2077 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 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 supports the intent of this measure.

Thank you for the opportunity to submit this testimony.



**From:** [mailinglist@capitol.hawaii.gov](mailto:mailinglist@capitol.hawaii.gov)  
**To:** [WAM Testimony](#)  
**Cc:** [ketmars@msn.com](mailto:ketmars@msn.com)  
**Subject:** Submitted testimony for SB2077 on Mar 2, 2016 09:30AM  
**Date:** Monday, February 29, 2016 2:47:34 PM

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**SB2077**

Submitted on: 2/29/2016

Testimony for WAM on Mar 2, 2016 09:30AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Marshall Takafuji	Individual	Support	No

Comments: I have been working as a Registered Nurse since 1991. I am very appreciative of the State of Hawaii as my employer who has taken care of my family's financial needs. although I will be one (1) month short of my 62nd birthday when my position is abolished, I continue to feel blessed at what I am to receive upon retirement. I was hoping to continue as a State of Hawaii employee until 66 years old so that I could count on the monthly pension as my monthly budget. The proposed pension of 5% x 10 years x annual base salary will be appreciated and used wisely to invest in a vehicle to adjunct the early retirement pension. thank you very much

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**To:** [WAM Testimony](#)  
**Cc:** [goodhone@gmail.com](mailto:goodhone@gmail.com)  
**Subject:** \*Submitted testimony for SB2077 on Mar 2, 2016 09:30AM\*  
**Date:** Monday, February 29, 2016 10:00:51 AM

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**SB2077**

Submitted on: 2/29/2016

Testimony for WAM on Mar 2, 2016 09:30AM in Conference Room 211

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

Comments:

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