HB 1065

RELATING TO ACTUARIAL COSTS OF SEPARATION OF PUBLIC EMPLOYEES FROM SERVICE.

LAB, FIN

HB1065 (?)

Submit Testimony

Measure Title:	RELATING TO ACTUARIAL COSTS OF SEPARATION OF PUBLIC EMPLOYEES FROM SERVICE.
Report Title:	Employees' Retirement System; separation from service of public employees
Description:	Requires payment to the Employees' Retirement System of any actuarial loss incurred due to separation from service of a significant number of an agency's employees.
Companion:	SB931
Package:	Governor
Current Referral:	LAB, FIN
Introducer(s):	SOUKI (Introduced by request of another party)

Sort by Date		Status Text
1/23/2017	H	Pending introduction.
1/25/2017	H	Pass First Reading
1/27/2017	H	Referred to LAB, FIN, referral sheet 5
2/6/2017	H	Bill scheduled to be heard by LAB on Thursday, 02-09-17 8:30AM in House conference room 309.

S = Senate | **H** = House | **D** = Data Systems | **$** = Appropriation measure | **ConAm** = Constitutional Amendment

H.B. NO. 1065

A BILL FOR AN ACT

RELATING TO ACTUARIAL COSTS OF SEPARATION OF PUBLIC EMPLOYEES FROM SERVICE.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. The purpose of this Act is to require payment to the employees' retirement system of the State of Hawaii of the actuarial cost of the loss of members when the State or a county separates a significant number of employees from service, including by transferring facilities or services to an entity other than an employer whose employees are entitled to membership in the employees' retirement system.

The legislature finds that the elimination of State and county employee positions, through privatization or closure of State or county facilities or through workforce restructuring, can have an adverse impact on the funded status and sustainability of the employees' retirement system. Currently, contributions by State and county employers to the employees' retirement system are based on a percentage of each employer's payroll and include payments toward the system's accrued pension liability. If an employer reduces the employer's payroll by eliminating employee positions, the employer's contributions to the system are reduced, including payments towards the accrued pension liability. The reduction in the payments towards the accrued pension liability would impede the reduction of the system's unfunded accrued liability. In order to prevent extension of the funding period for the system's unfunded liability, contributions to the system by all State and county employers would have to be increased.

The purpose of this bill is to ensure that an employer, who separates a significant number of employees from public service, bears the economic responsibility to the employees' retirement system for the consequences of such action.

SECTION 2. Chapter 88, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"**§88-   Payment of actuarial costs of separating a significant number of members from service.** (a) If an employing agency separates a significant number of employees from service, the employing agency shall pay to the system an amount equal to the actuarial cost to the system resulting from the separation from service and the associated fees for the determination by the system's actuary of the actuarial cost to the system resulting from the separation from service. Payment shall be made before October 1 of the second fiscal year following the separation from service; provided that the board may, on such terms as the board deems reasonable, extend the time for payment and permit payment in installments. The system may also charge an employing agency for, and the employing agency shall pay to the system, the associated fees for the preparation of any estimates provided by the system to the employing agency of the actuarial cost to the system of any proposed separation from service of a significant number of the employing agency's employees.

(b) The actuarial cost to the system resulting from the separation of employees from service shall include:

(1) The expected payments towards the unfunded actuarial accrued liability over the period described in paragraph (1) of subsection (c) below; and

(2) The present value of any actuarial liability loss, measured using the actuarial assumptions in paragraph (2) of subsection (c) below.

(c) The actuarial cost shall be determined by the system's actuary as of July 1 of the fiscal year following separation:

(1) Based on an amortization period equal to the shorter of twenty-five years or the remainder of the amortization period used for the current employer contribution rate under section 88-122; and

(2) The actuarial assumptions in effect for the valuation of the system as of the end of the fiscal year during which the separation from service occurred; provided that the investment return assumption shall be reduced by one percentage point.

(d) For the purposes of this section:

"Employing agency" means a department of the State, the Hawaii health systems corporation, the University of Hawaii, the office of Hawaiian affairs, a department of a county, and any administrative agencies, boards, and commissions attached to a State or county department for administrative purposes.

"Separation from service" means to cause an individual's employment to be terminated by abolishing the position held by the employee, including the transfer of all or a portion of an employing agency's functions, services, or facilities to a private entity or the closure of a facility operated by an employing agency or by terminating the inclusion in the system of an employing agency's employees.

"Significant number" means a number equal to or greater than the lesser of (1) the number of employees equal to one per cent of all active members of the system as of the end of the fiscal year immediately prior to the fiscal year during which the positions are abolished; or (2) the number of employees equal to five per cent of the positions to which the employing agency was entitled at the end of the fiscal year immediately prior to the fiscal year during which the positions are abolished."

SECTION 3. New statutory material is underscored.

SECTION 4. This Act shall take effect upon its approval.

INTRODUCED BY: ______________________

BY REQUEST

JAN 23 2017

H.B. NO. 1065

Report Title:
Employees' Retirement System; separation from service of public employees

Description:
Requires payment to the Employees' Retirement System of any actuarial loss incurred due to separation from service of a significant number of an agency's employees.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

HB1065

JUSTIFICATION SHEET

DEPARTMENT: Budget and Finance

TITLE: A BILL FOR AN ACT RELATING TO ACTUARIAL COSTS OF SEPARATION OF PUBLIC EMPLOYEES FROM SERVICE.

PURPOSE: To require payment by the employer to the ERS of the actuarial cost of the loss of members when the State or a county separates a significant number of employees from service.

MEANS: New section of the Hawaii Revised Statutes.

JUSTIFICATION: As of June 30, 2015, the ERS had a funded ratio of 62.2 percent and an unfunded liability of $8.7 billion. The current funding period is 26 years. With the HHSC Maui disaffiliation due to Act 103/2015, the expected ERS unfunded liability will increase to $10.6 billion with a 48 year funding period. As the ERS is a cost-sharing plan, in which all employers contribute, the loss of contributions from one employer must be covered by all other remaining ERS employers.

This bill will ensure that an employer, who separates a significant number of employees from public service, bears the economic responsibility to the ERS for the consequences of such action.

Impact on the public: None.

Impact on the department and other agencies: State and county agencies and departments who wish to separate a significant number of employees from the ERS will have to consider the cost of funding the associated loss of employer and employee contributions caused by facility closures, employee transfer, privatization or workforce restructuring.

HB1065

GENERAL FUND:	See the above.
OTHER FUNDS:	See the above.
PPBS PROGRAM DESIGNATION:	BUF-141/Retirement.
OTHER AFFECTED AGENCIES:	All State and county public employers.
EFFECTIVE DATE:	Upon approval.

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

HOUSE BILL NO. 1065

FEBRUARY 9, 2017, 8:30 A.M.

RELATING TO ACTUARIAL COSTS OF SEPARATION OF PUBLIC EMPLOYEES FROM SERVICE

Chair Johanson, Vice Chair Holt and Members of the Committee,

The purpose of H.B. 1065 is to ensure that an employer, who separates a significant number of employees from public service, bears the economic responsibility to the Employees' Retirement System (ERS) for the consequences of such action.

The ERS is a cost-sharing plan in which all employers contribute and from which all employees receive benefits. All assets are available to pay the accrued benefits of any member and all liabilities, unfunded or otherwise, are shared across employers. The elimination of State and county employee positions, whether through privatization or closure of State or county facilities or through workforce restructuring, can have an adverse impact on the funded status and sustainability of the ERS by increasing the plan's unfunded liability and leaving those employers who remain in the system the obligation to pay.

Currently, the ERS's unfunded liability totals $12.4 billion with a funded ratio of merely 54.7%. With the new investment rate and mortality assumptions, suggested by the actuary and adopted by the ERS Board of Trustees, the estimated period for full funding of the System is 66 years. The ERS has also proposed legislation during this session which if adopted will increase employer contributions by a significant percentage of payroll over the next 4 years.

If an employer reduces the employer's payroll by eliminating employee positions, the employer's contributions to the system are reduced, including payments towards the accrued pension liability. This bill will require that the employer shall compensate the ERS and indirectly those employers who remain in the system for the actuarial loss incurred as a result of the separation of these employees from covered service.

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

Thank you for this opportunity to provide testimony on H.B. 1065.

House Committee on Labor & Public Employment
Representative Aaron Ling Johanson, Chair
Representative Daniel Holt, Vice Chair

February 9, 2017
Conference Room 309
8:30 a.m.
Hawaii State Capitol

Testimony in opposition to House Bill 1065 Relating to Actuarial Costs of Separation of Public Employees from Service
Requires payment to the Employees' Retirement System of any actuarial loss incurred due to separation from service of a significant number of an agency's employees.

Linda Rosen, M.D., M.P.H.
Chief Executive Officer
Hawaii Health Systems Corporation

On behalf of the Hawaii Health Systems Corporation (HHSC) Corporate Board of Directors, thank you for the opportunity to present testimony **opposing** HB 1065 that requires payment to the Employees' Retirement System of any actuarial loss incurred due to separation from service of a significant number of an agency's employees.

This measure provides that if an employing agency separates a significant number of employees from service, the employing agency shall pay to the employee retirement system an amount equal to the actuarial cost to the system resulting from the separation from service and the associated fees for the determination by the system's actuary of the actuarial cost to the system resulting from the separation from service. A significant number of employees is defined as a number equal to or greater than the lesser of (1) the number of employees equal to one per cent of all active members of the system as of the end of the fiscal year immediately prior to the fiscal year during which the positions are abolished; or (2) the number of employees equal to five per cent of the positions to which the employing agency was entitled at the end of the fiscal year immediately prior to the fiscal year during which the positions are abolished.

In fiscal year 2016, HHSC initiated a significant reduction-in-force as a result of significant projected cash flow shortfalls. This reduction-in-force resulted in significant savings which allowed HHSC to continue operations through fiscal year 2016, and to have enough carryforward cash to survive the cash flow deficits its facilities are experiencing in fiscal year 2017. Had this measure been in place prior to our reduction-in-force in 2016, the cost of repaying the employees' retirement system would have negated or exceeded the amount HHSC saved in salary and benefit cost reductions. This would have left HHSC with no management tool to right-size its operations in anticipation of a significant cash flow shortfall. Based on the provisions in this bill, any HHSC reduction-in-force of 145 positions or more would be subject to the payback provisions.

Further, this measure sets a cost precedent for potential future transitions for some HHSC regions in which the cost of paying back the employees' retirement system may exceed the amount of savings generated from potential general fund appropriation subsidy reductions over time. This would prevent the hospitals in those regions from benefitting from the operational expertise of larger healthcare systems and the associated benefits of superior information technology and quality of care management that those types of systems would bring.

Thank you for the opportunity to testify before this committee. We would respectfully recommend that the committee oppose this measure.

HB 1065

Late testimony