

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 FINANCE  
ON

HOUSE BILL NO. 234, H.D. 1

FEBRUARY 22, 2017, 3:00 P.M.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Luke, Vice Chair Cullen and Members of the Committee,

H.B. 234, H.D. 1 proposes to amend Section 89E, Hawaii Revised Statutes, by repealing the voluntary severance benefits provided by Act 1, SSLH 2016 to employees who may be affected by Act 103, SLH 2015, which allowed for the privatization of Hawaii Health Systems Corporation's (HHSC) Maui Regional facilities. The subsequent benefits provided under Act 1, SSLH, 2016 (Act 1) authorized HHSC employees facing position abolishment, reduction-in-force, or workforce restructuring to opt to receive either severance benefits or a special retirement benefit from the Employees' Retirement System (ERS) in lieu of exercising any reduction-in-force rights. H.B. 234, H.D. 1 would eliminate the severance benefit as a choice and allow only special retirement benefits to eligible employees.

The ERS Board of Trustees notes its serious funding concerns with H.B. 234, H.D. 1.

Act 1, as it is currently codified, represents an impermissible "cash or deferred arrangement" under the Internal Revenue Code that could jeopardize the tax-qualified status of the ERS. ERS Staff would like to remind this Committee that there is currently a temporary restraining



Employees' Retirement System  
of the State of Hawaii

order placed on the implementation of Act 1 until the ERS receives an Internal Revenue Service determination on the risk to ERS's tax-qualified status. H.B. 234, H.D. 2 would take away the "choice" offered by Act 1 and by inference remove the "cash or deferred" choice deemed problematic in the Act.

Although severance benefits may be eliminated, the ERS will still be responsible for providing early retirement benefits to approximately 100 additional employees at the cost of an estimated additional \$17.2 million. These costs will be added to the current unfunded actuarial accrued liability of the ERS which as of June 30, 2016 stands at \$12.4 billion, with a funded ratio of 54.7% and a funding period of 66 years. As stated during the last legislative session, estimating the actual cost of special retirement benefits under Act 1 is difficult as eligibility parameters are ambiguous and Act 1 has no explicit deadline as to when the affected employees have to qualify and file for the special retirement benefit. The ERS would prefer that any accommodation for employees impacted by the Maui Hospital separation be limited to severance benefits. If special retirement benefits are included, the board requests that funding be provided for the same.

Thank you for this opportunity to provide testimony on H.B. 234, H.D. 1.

DAVID Y. IGE  
GOVERNOR



JAMES K. NISHIMOTO  
DIRECTOR

RYKER WADA  
DEPUTY DIRECTOR

**STATE OF HAWAII**  
**DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT**  
235 S. BERETANIA STREET  
HONOLULU, HAWAII 96813-2437

February 21, 2017

TESTIMONY TO THE  
HOUSE COMMITTEE ON FINANCE  
For Hearing on Wednesday, February 22, 2017  
3:00 p.m., Conference Room 308

By

JAMES K. NISHIMOTO  
DIRECTOR, DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT

**House Bill No. 234**  
**Relating to the Employees' Retirement System**

CHAIRPERSON LUKE, VICE CHAIR CULLEN AND MEMBERS OF THE HOUSE  
COMMITTEE ON FINANCE:

H.B. 234 HD1 repeals the voluntary severance benefits from Act 1, SSLH 2016.

The Department of Human Resources Development (DHRD) **has concerns** with H.B. 234 HD1 as it appears with the deletion of the separation incentive benefits, employees who are not eligible for retirement benefits would not receive benefits upon termination from State service.

In addition, as the Hawai'i Health Systems Corporation (HHSC) is the employer of the affected employees, the reporting requirements covered in Section 89E-7(1) and (3), Hawaii Revised Statutes (HRS), as it relates to DHRD is unnecessary as DHRD has no authority or administrative oversight over the HHSC. Therefore, we respectfully recommend that this section be revised to remove any references to DHRD such that HHSC would not be

required to transmit to DHRD reports relating to positions that are abolished and vacated, and lists that include employees and their benefits. For the same reasons, we also recommend that Section 89E-8, Hawaii Revised Statutes be revised with the removal of any references to DHRD.

We respectfully request that Chapter 89E-7, HRS, lines 17 – 21 on page 3; lines 1 - 8 and 16 – 19 on page 4 be amended to read as follows:

“SECTION 5. Section 89E-7, HRS, is amended to read as follows:

§89E-7 Reporting requirement; reduction in personnel counts. The head of the agency that provided benefits under this chapter shall:

(1) Transmit a report of every position identified for abolishment and vacated under this chapter to the director[~~s~~] of finance [~~and human resources development~~], who shall abolish these positions from the appropriate budget and personnel files. The governor shall report this information to the legislature no later than twenty days prior to the convening of each regular session beginning with the regular session of 2017;

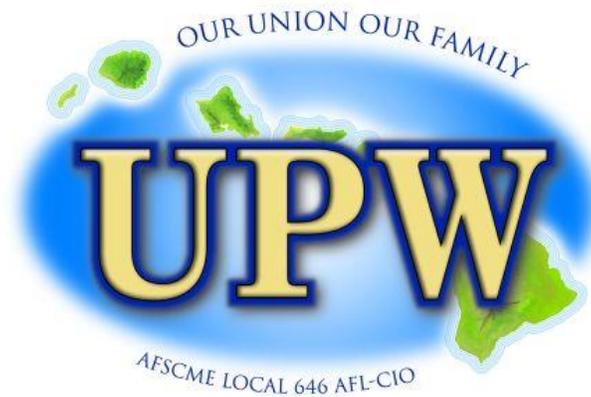
(3) Transmit a list that includes each employee who received benefits under this chapter and the benefit received by the employee to the director[~~s~~] of finance [~~and human resources development~~].”

Also, we respectfully request that Chapter 89E-8, HRS, lines 20 – 21 on page 4, and lines 1 – 13 on page 5 be amended to read as follows:

“SECTION 6 Section 89E-8, HRS, is amended by amending subsection (a) to read as follows:

The [~~departments of human resources development~~] head of the agency and budget and finance shall develop and administer guidelines and time frames with the exclusive representatives of affected employees to implement the [~~voluntary severance benefits and~~] special retirement benefits under this chapter. The [~~department of human resources development~~] head of the agency, the department of labor and industrial relations, the employees’ retirement system, and the Hawaii employer-union health benefits trust fund shall work cooperatively to ensure that briefings are provided prior to the implementation of any workforce restructuring plan to educate the employees whose positions are being abolished or who are directly affected by a reduction-in-force or workforce restructuring plan.”

Thank you for the opportunity to testify on this measure.



THE HAWAII STATE SENATE  
The Twenty-Ninth Legislature  
Regular Session of 2017

HOUSE COMMITTEE ON FINANCE

The Honorable Representative Sylvia Luke, Chair  
The Honorable Representative Ty J.K. Cullen, Vice Chair

DATE OF HEARING: Wednesday, February 22, 2017  
TIME OF HEARING: 3:00pm  
PLACE OF HEARING: Conference Room 308  
State Capitol  
415 South Beretania Street

**TESTIMONY ON HOUSE BILL 234 HD1: RELATING TO THE EMPLOYEES'  
RETIREMENT SYSTEM.**

By DAYTON M. NAKANELUA,  
State Director of the United Public Workers,  
AFSCME Local 646, AFL-CIO ("UPW")

My name is Dayton M. Nakanelua, State Director of the United Public Workers, AFSCME, Local 646, AFL-CIO (UPW). The UPW is the exclusive bargaining representative for approximately 14,000 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. The UPW also represents about 1,500 members of the private sector.

The UPW supports the purpose and intent of HB 234 HD1, which makes amendments to Act 1, Special Session Laws of Hawaii, 2016, by repealing the voluntary severance benefits for employees of the Maui Region of the Hawaii Health Systems Corporation.

Thank you for the opportunity to submit this testimony.



## HAWAII GOVERNMENT EMPLOYEES ASSOCIATION

AFSCME Local 152, AFL-CIO

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

The Twenty-Ninth Legislature, State of Hawaii  
House of Representatives  
Committee on Finance

Testimony by  
Hawaii Government Employees Association

February 22, 2017

H.B. 234, H.D. 1 – RELATING TO THE  
EMPLOYEES' RETIRMENT SYSTEM

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly supports the purpose and intent of H.B. 234, H.D. 1 which makes amendments to Act 1, Special Session Laws of Hawaii, 2016, by repealing the voluntary severance benefits for employees of the Maui Region of the Hawaii Health Systems Corporation.

On July 20, 2016, the Legislature overrode the Governor's veto of S.B. 2077, which provided employees in the Maui Region of the HHSC the choice of a cash severance payment or special retirement benefits. Two weeks later, the Employees' Retirement System filed a lawsuit over the legislation's affect on the system's tax exempt status and the court granted a temporary stay on the implementation of Act 1, pending an opinion from the Internal Revenue Service.

The affected employees have been in limbo regarding their employment and retirement benefits for too long. The hospitals' transfer to Kaiser is slated to take effect on July 1, 2017 and employees deserve to know their full benefit package so that they can make the best decisions for themselves and their families. With over 2/3 support in both the House of Representatives and the Senate, the legislative intent to assist displaced employees is clear. This measure, along with other bills on this hearing agenda, serves as a conceptual vehicle to fully vet resolutions to the ERS' pending lawsuit.

Thank you for the opportunity to testify in strong support of passing H.B. 234, H.D. 1 to continue this important dialogue.

Respectfully submitted,

Randy Perreira  
Executive Director



**HAWAII HEALTH SYSTEMS**  
C O R P O R A T I O N

*"Quality Healthcare For All"*

**House Committee on Finance**  
**Representative Sylvia Luke, Chair**  
**Representative Ty J. K. Cullen, Vice Chair**

February 22, 2017  
Conference Room 308  
3:00 p.m.  
Hawaii State Capitol

**Testimony Providing Comments on House Bill 234 Relating to the Employees' Retirement System**  
**Repeals the voluntary severance benefits from Act 1, SSLH 2016, as codified.**

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 **providing comments** on HB 234 that repeals the voluntary severance benefits from Act 1, SSLH 2016, as codified.

HHSC respectfully requests that the committee consider that the additional costs of the special retirement benefit contemplated in Act 1, SSLH 2016 and in this bill be paid through a general fund appropriation, and that in no way would that appropriation diminish the amount of additional general fund appropriations requested by HHSC to fund the four remaining HHSC regions.

HHSC is currently facing a cash flow deficit in fiscal year 2017 which will leave HHSC's facilities with extremely low levels of cash on hand as compared to industry norms. Further, HHSC is already asking for an increase in its general fund appropriation base of approximately \$36.5 million and \$34.7 million for fiscal years 2018 and 2019, respectively, just to achieve a break-even cash flow for those fiscal years. The payment of the special retirement benefit as contemplated in Act 1, SSLH 2016, and this bill would represent additional costs to HHSC as the employer. Given the fragile financial condition that HHSC is in, HHSC cannot afford to pay for these benefits without a general fund appropriation. Further, HHSC's priority is to make sure that the safety-net hospitals that it operates have sufficient funding to operate efficiently and effectively for this fiscal year and the next biennium of fiscal years 2018 and 2019.

Page 2  
February 22, 2017  
Hawaii Health Systems Corporation  
HB 234

Thank you for the opportunity to testify before this committee. We would respectfully request that this committee take into account our comments on this measure in considering the action to take on this bill.

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, February 21, 2017 4:29 PM  
**To:** FINTestimony  
**Cc:** rgausepohl@kauai.gov  
**Subject:** \*Submitted testimony for HB206 on Feb 23, 2017 13:00PM\*

**HB206**

Submitted on: 2/21/2017

Testimony for FIN on Feb 23, 2017 13:00PM in Conference Room 308

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Rob Gausepohl	Individual	Support	No

Comments:

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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