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**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
SENATE BILL NO. 2765, S.D. 1, H.D. 1

**April 4, 2018
1:30 P.M.
Conference Room 308**

RELATING TO INVESTMENT PERSONNEL OF THE EMPLOYEES' RETIREMENT SYSTEM

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

S.B. 2765, S.D. 1, H.D. 1, would allow the Board of Trustees of the Employees' Retirement System of the State of Hawaii (ERS) to designate future investment specialist as exempt from chapters 76 and 89, Hawaii Revised Statutes, offer ERS's two existing investment specialists the choice of being exempt from chapters 76 and 89, Hawaii Revised Statutes.

Successful investment of the funds of the Employees' Retirement System is one of the primary pathways to the stability and sustainability of the system. A member's retirement benefit is funded through a combination of employer and employee contributions and investment earnings. Over two-thirds of every dollar of benefits provided is attributable to investment earnings. The system currently has over seventeen billion dollars in domestic and international investments and decisions made by the Board of Trustees of the system, based on recommendations of our team of investment professionals, are critical to the current and future funding and sustainability of the system, which has an unfunded actuarial accrued liability of \$12.9 billion and a funded ratio of 54.9% as of June 30, 2017.



Employees' Retirement System
of the State of Hawaii

Although the members of the Board of Trustees, as fiduciaries, are responsible for the general management of the system's assets and implementation of the system's investment policy, they rely heavily on internal and external investment experts for advice. The role of assisting and advising the board in investing the system's assets falls primarily with the system's investment staff consisting of a Chief Investment Officer, two strategy specific officers (liquid and illiquid investments), a risk officer, each of whom is exempt from civil service classification, and two Investment Specialists who are civil service employees. The ERS's ability to achieve its investment goals rest on its ability to recruit and retain competent investment staff. With this legislation, the Investment Specialists would be given the choice of either converting to exempt employee status or remaining as civil service employees. Prospectively, the bill will provide that future appointments in these positions will be exempt from Chapters 76 and 89.

The current investment team staffing structure, consisting of exempt Investment Officers and non-exempt Investment Specialists, is not expected to support our long-term needs or represent the fund's long-term best interest. Staffing will need to be flexible and augmented given the complexity of our portfolio, its size and the dynamics of modern financial markets. The investment portfolio has increased its allocations to domestic and international equity products, covered calls, real return assets, alternative investments, and private equity. In addition, the ERS is transitioning its portfolio to a risk-focused asset allocation program, the implementation of which will require additional attention, monitoring, review and rebalancing.

Effective management of our investments requires the experience and expertise of seasoned professionals. Investment office staff provides the Board with ongoing tactical and strategic insights into the risk-return trade-offs of multiple asset class investments. Allowing our two existing Investment Specialist to choose either civil service or exempt status while establishing our future Investment Specialists as exempt from civil service will permit us to recruit, compensate and retain these invaluable associates while providing a career path for existing and future staff. It is widely recognized that the greatest benefit and/or risk to public pension plan sustainability today resides in its capacity to recruit and retain the most qualified and capable team of investment professionals. Liabilities not offset by investment earnings result in increased employer and employee contributions. Any associated costs attributable to this conversion will be derived solely from ERS internally generated funds.

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

Thank you for this opportunity to provide testimony on S.B. 2765, S.D 1, H.D. 1.



LATE

The House Committee on Finance
Wednesday, April 4, 2018
1:30 PM, Conference Room 308

RE: **SB 2765 SD1 HD1, Relating to Investment Personnel of the Employees' Retirement System**

Attention: Chair Sylvia Luke, Vice Chair Ty Cullen and members of the Committee

The University of Hawaii Professional Assembly (UHPA) urges the committee to **support passage of SB 2765 SD1, HD1.**

In January, UHPA had the opportunity to meet with the ERS Actuarial Consultant, Gabriel, Roeder, Smith & Company (GRS), to go over the most recent actuarial valuation report. We confirmed with GRS that having a robust and functional investment team provides the appropriate resources to support the funding needs of the current and future liabilities. A robust investment team will ensure that the investment returns are maximized when the financial markets are performing well, and will help protect against investment losses when the financial markets are struggling.

The amendment to the measure places the responsibility of hiring investment personnel and investment professionals with the Board of Trustees, rather than the executive director, which is in alignment with other agencies such as the Hawaii Employer-Union Trust Fund (EUTF).

The investment team performed exceptionally well over the past seven years under the previous Chief Investment Officer, helping to stabilize the financial situation and decrease the timeline to full funding.

With a variety of issues arising over the funding of the ERS it is important that the ERS Board be fully responsible for decisions of investment related matters. Both elected and appointed Board members owe a duty to the beneficiaries of the fund to ensure proper care is taken with the funding of the system.

UHPA supports the passage of SB 2765 SD1, HD1.

Respectfully submitted,

A handwritten signature in black ink, reading "Kristeen Hanselman".

Kristeen Hanselman
Executive Director

University of Hawaii
Professional Assembly

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