
A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM FUNDING PERIOD.

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

1 SECTION 1. The legislature finds that due to the
2 employees' retirement system's long-term investment performance,
3 including fiscal year 2021-2022, the funding period in which the
4 employees' retirement system is expected to be fully funded has
5 steadily decreased from the forecasted thirty years in fiscal
6 year 2015-2016 to twenty-four years in fiscal year 2021-2022.
7 The employees' retirement system's funded ratio also has
8 improved from 54.7 per cent in fiscal year 2015-2016 to 61.2 per
9 cent in fiscal year 2021-2022 and the actual unfunded actuarial
10 accrued liability has decreased from a peak of \$14,600,000,000
11 in fiscal year 2019-2020 to \$13,500,000,000 in fiscal year 2021-
12 2022. Now that the increased employer contribution rates have
13 reached the top of the phase-in, the strategy put in place by
14 the legislature on July 1, 2017, is accomplishing the original
15 goals. It is currently projected that the employees' retirement
16 system's funded ratio will continue to improve and the unfunded
17 actuarial accrued liability is expected to decline year over
18 year going forward. However, there have been changes in



1 professional actuarial industry guidance on appropriate funding
2 policies that now recommend a maximum liability funding period
3 of twenty years or less. This Act amends the maximum funding
4 period to amortize the total unfunded accrued liability of the
5 employees' retirement system to start at twenty-five years and
6 lower by one year each year thereafter until reaching twenty
7 years. A phase-in strategy would strengthen the employees'
8 retirement system over the long term without impacting the
9 expected path toward full-funding or current contribution rates,
10 absent severe and long-term adverse experience in the financial
11 market.

12 The purpose of this Act is to reduce the maximum projected
13 funding period limit to amortize the total unfunded accrued
14 liability of the employees' retirement system of the State of
15 Hawaii from thirty years to twenty years. This reduction would
16 lower future costs and be viewed very favorably by the State's
17 bond rating agencies and align the employees' retirement system
18 with new Actuarial Standards of Practice.

19 SECTION 2. Section 88-21, Hawaii Revised Statutes, is
20 amended by adding a new definition to be appropriately inserted
21 and to read as follows:



1 "Maximum funding period": a period over which the
2 amortization of the unfunded accrued liability shall not exceed
3 twenty-five years as determined by the actuarial valuation as of
4 June 30, 2024, twenty-four years as determined by the actuarial
5 valuation as of June 30, 2025, twenty-three years as determined
6 by the actuarial valuation as of June 30, 2026, twenty-two years
7 as determined by the actuarial valuation as of June 30, 2027,
8 twenty-one years as determined by the actuarial valuation as of
9 June 30, 2028, and twenty years as determined by the actuarial
10 valuation as of June 30, 2029, and thereafter."

11 SECTION 3. Section 88-122, Hawaii Revised Statutes, is
12 amended by amending subsection (e) to read as follows:

13 "(e) Commencing with fiscal year 2005-2006 and each
14 subsequent fiscal year until fiscal year 2007-2008, the employer
15 contributions for normal cost and accrued liability for each of
16 the two groups of employees in subsection (a) shall be based on
17 fifteen and three-fourths per cent of the member's compensation
18 for police officers, firefighters, and corrections officers and
19 thirteen and three-fourths per cent of the member's compensation
20 for all other employees. Commencing with fiscal year 2008-2009
21 and each subsequent fiscal year until fiscal year 2011-2012, the



1 employer contributions for normal cost and accrued liability for
2 each of the two groups of employees in subsection (a) shall be
3 based on nineteen and seven-tenths per cent of the member's
4 compensation for police officers, firefighters, and corrections
5 officers and fifteen per cent of the member's compensation for
6 all other employees. In fiscal year 2012-2013, the employer
7 contributions for normal cost and accrued liability for each of
8 the two groups of employees in subsection (a) shall be based on
9 twenty-two per cent of the member's compensation for police
10 officers, firefighters, and corrections officers and fifteen and
11 one-half per cent of the member's compensation for all other
12 employees. In fiscal year 2013-2014, the employer contributions
13 for normal cost and accrued liability for each of the two groups
14 of employees in subsection (a) shall be based on twenty-three
15 per cent of the member's compensation for police officers,
16 firefighters, and corrections officers and sixteen per cent of
17 the member's compensation for all other employees. In fiscal
18 year 2014-2015, the employer contributions for normal cost and
19 accrued liability for each of the two groups of employees in
20 subsection (a) shall be based on twenty-four per cent of the
21 member's compensation for police officers, firefighters, and



1 corrections officers and sixteen and one-half per cent of the
2 member's compensation for all other employees. Commencing with
3 fiscal year 2015-2016 until fiscal year 2016-2017, the employer
4 contributions for normal cost and accrued liability for each of
5 the two groups of employees in subsection (a) shall be based on
6 twenty-five per cent of the member's compensation for police
7 officers, firefighters, and corrections officers and seventeen
8 per cent of the member's compensation for all other employees.
9 In fiscal year 2017-2018, the employer contributions for normal
10 cost and accrued liability for each of the two groups of
11 employees in subsection (a) shall be based on twenty-eight per
12 cent of the member's compensation for police officers,
13 firefighters, and corrections officers and eighteen per cent of
14 the member's compensation for all other employees. In fiscal
15 year 2018-2019, the employer contributions for normal cost and
16 accrued liability for each of the two groups in subsection (a)
17 shall be based on thirty-one per cent of the member's
18 compensation for police officers, firefighters, and corrections
19 officers and nineteen per cent of the member's compensation for
20 all other employees. In fiscal year 2019-2020, the employer
21 contributions for normal cost and accrued liability for each of



1 the two groups in subsection (a) shall be based on thirty-six
2 per cent of the member's compensation for police officers,
3 firefighters, and corrections officers and twenty-two per cent
4 of the member's compensation for all other employees.
5 Commencing with fiscal year 2020-2021 and each subsequent fiscal
6 year, the employer contributions for normal cost and accrued
7 liability for each of the two groups in subsection (a) shall be
8 based on forty-one per cent of the member's compensation for
9 police officers, firefighters, and corrections officers and
10 twenty-four per cent of the member's compensation for all other
11 employees. The contribution rates shall amortize the total
12 unfunded accrued liability of the entire plan over a period not
13 to exceed [~~thirty years.~~] the maximum funding period.

14 The contribution rates shall be subject to adjustment:

- 15 (1) If the actual period required to amortize the unfunded
16 accrued liability exceeds [~~thirty years,~~] the maximum
17 funding period;
- 18 (2) If there is no unfunded accrued liability; or
- 19 (3) Based on the actuarial investigation conducted in
20 accordance with section 88-105."



1 SECTION 4. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

3 SECTION 5. This Act shall take effect on July 1, 2024.



Report Title:

ERS; Funding Period; Unfunded Accrued Liability

Description:

Lowers the Employees' Retirement System's funding period to amortize the System's total unfunded accrued liability. (CD1)

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

