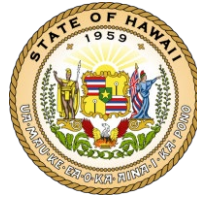


JOSH GREEN, M.D.
GOVERNOR



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 GOVERNMENT OPERATIONS
ON
HOUSE BILL NO. 2381
February 6, 2024
9:15 A.M.
Conference Room 309 and VIA Videoconference

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM FUNDING PERIOD.

Chair Matayoshi, Vice Chair Garrett, and Members of the Committee,

H.B. 2381, proposes to add a definition of the "Maximum funding period" under Section 88-21 to decrease the maximum projected funding period limit in which to amortize the total unfunded actuarial accrued liability (UAAL) of the Employees' Retirement System (ERS) prescribed in Section 88-122(e) from thirty years to twenty years. Exceeding the mandated funding limit would prompt an adjustment to the employer's normal cost and accrued liability contributions. The bill seeks to achieve this reduction by initially lowering the maximum funding period from thirty to twenty-five years for fiscal year end 2024, then lowering the limit by one year for each of the next five fiscal years, to end with a twenty-year funding period limit at fiscal year-end 2029 and thereafter.

The ERS Board of Trustees supports the bill and its intent to strengthen both the ERS' and the State's long term financial positions by providing a means for a more prudent response to avoid negative amortization on any substantial increase in the UAAL.

Although the UAAL is not projected to breach the current 30-year funding period, should the system experience a continued adverse investment environment with returns of 5% instead of the assumed 7% benchmark, the proposed lower maximum funding periods would initiate a response, staunching the growth of the UAAL by slowly increasing



Employees' Retirement System
of the State of Hawaii

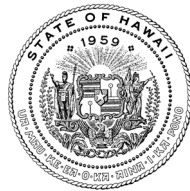
contribution rates by about 1.5% and potentially achieve 100% funding a decade earlier in this scenario. In comparison, the 30-year funding would never be breached to then address the growth in the UAAL.

The proposed 20-year maximum funding period would be estimated to save more than \$50 billion in total contributions over the long term in comparison to the current 30-year period in the previous scenario, according to ERS' actuary, Gabriel, Roeder, Smith & Company. This fiscally judicious funding policy would not only align the Hawaii ERS with the majority of large pension plans nationally but would also be favorably considered in the issuance of bond ratings for the State.

While 30-year funding periods were common in the past, industry best practices have moved in favor of more responsive and fiscally responsible shorter periods. Moving to the proposed 20-year funding period would not only provide for a more rapid response to substantial adverse investment experience but would also avoid the initial growth of any unfunded liability, known as negative amortization. Savings result from avoiding the compounding cost of interest payments on the liability, initially limiting payment of the principal and extending the duration of the paydown, during the negative amortization in the first five to ten years of a 30-year amortization period.

The bill proposes to have the year-over-year stepdown reduction in the maximum funding period mirror the continued annual reduction in the UAAL. As exceeding the mandated funding limit would prompt an adjustment to the employer's normal cost and accrued liability contributions, the first year of the reduction of the proposed maximum funding period as of June 30, 2024 would be set at 25 years, while the ERS' funding period of the UAAL is projected to be 22 years on that date. Supposing all assumptions are met along with a continued commitment to current contribution levels, it is projected that the UAAL is unlikely to breach the proposed maximum funding periods and should not trigger the statutorily required contribution review for adjustment.

Thank you for the opportunity to provide testimony on H.B. 2381.



JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LIEUTENANT GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
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
Ka 'Oihana Mālama Mo'ohelu a Kāla
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT

WRITTEN ONLY

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON LABOR AND GOVERNMENT OPERATIONS
ON
HOUSE BILL NO. 2381

February 6, 2024
9:15 a.m.
Room 309 and Videoconference

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM FUNDING PERIOD

The Department of Budget and Finance (B&F) supports this Administration bill.

House Bill No. 2381 amends Chapter 88, HRS, to: 1) add a new definition for "maximum funding period" to reduce the amortization period cap of the Employees' Retirement System's (ERS) unfunded accrued actuarial liability (UAAL) from 30 years to 25 years as of June 30, 2024, then reduce it further by an additional year every subsequent year until it reaches 20 years as of June 30, 2029; and 2) make other amendments for consistency.

B&F strongly supports this bill that would align the maximum funding period for the ERS' UAAL with current actuarial industry guidance in a phased-in manner. This is not anticipated to affect the pension accumulation contribution rates and annual costs for public employers since the funding period as of June 30, 2023, has already reached 23 years and is expected to continue to decline annually. Furthermore, the reduction of the maximum funding period is expected to have a positive impact on the State's credit ratings and long-term borrowing costs.

Thank you for your consideration of our comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Lower Funding Period in Employees' Retirement System

BILL NUMBER: HB 2381, SB 3070

INTRODUCED BY: HB by SAIKI; SB by KOUCHI (Governor's Package)

EXECUTIVE SUMMARY: Lowers the Employees' Retirement System's funding period from 30 years to 20 years to amortize the System's total unfunded accrued liability.

SYNOPSIS: Amends section 88-21, HRS, to add a new definition of "maximum funding period" as a period over which the amortization of the unfunded accrued liability shall not exceed twenty-five years as determined by the actuarial valuation as of June 30, 2024, twenty-four years as determined by the actuarial valuation as of June 30, 2025, twenty-three years as determined by the actuarial valuation as of June 30, 2026, twenty-two years as determined by the actuarial valuation as of June 30, 2027, twenty-one years as determined by the actuarial valuation as of June 30, 2028, and twenty years as determined by the actuarial valuation as of June 30, 2029, and thereafter.

Amends section 88-122(e), HRS, to replace "thirty years" with the new defined term.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: The change proposed by this bill can be thought of as similar to refinancing a 30-year mortgage and replacing it with a 15-year mortgage. The good news is that the total carrying costs, primarily interest, will be greatly reduced over the term of the loan. The bad news is that your monthly payment will be significantly higher.

The debt that we are talking about with this bill is huge. The Unfunded Actuarial Accrued Liability (UAAL) of the ERS, as of fiscal year 2021-22, was \$14.6 billion. This amount is the difference between the present value of what ERS expects to pay out and the present value of the assets it has. By comparison, the amount appropriated to run all of our state government for one year, in this case fiscal year 2022-23, was \$17.2 billion.

We have not seen figures showing the difference in annual required contributions that each of the governmental employers are going to have to make under the plan as amended versus the present plan. We anticipate that the number will be quite large. If the adoption of the plan will require loads of additional taxes from an already overtaxed citizenry, we question whether the change will be worth the social cost.

Digested: 2/4/2024

HB-2381

Submitted on: 2/4/2024 4:36:04 PM

Testimony for LGO on 2/6/2024 9:15:00 AM

Submitted By	Organization	Testifier Position	Testify
Tamara Paltin	Individual	Support	Written Testimony Only

Comments:

I support HB2381 and aligning with current best practices.

Mahalo,

Tamara Paltin

HB-2381

Submitted on: 2/4/2024 9:47:19 PM

Testimony for LGO on 2/6/2024 9:15:00 AM

Submitted By	Organization	Testifier Position	Testify
Paul Carter	Individual	Support	Written Testimony Only

Comments:

To Chair Rhoads, Vice Chair Gabbard, and the honorable members of the Senate Judiciary Committee,

I strongly support SB2381, a measure addressing crucial campaign finance issues in Hawaii. As a Maui community member, this bill's establishment of public financing for all candidates is essential for promoting transparency and ensuring equitable representation.

In the aftermath of recent wildfires, SB2381's community-driven approach is vital for creating a political environment that is responsive and representative. I urge the committee to consider the long-term benefits of this bill in fostering fairness and accountability in our state's political process.

Mahalo for your attention to this critical issue.

Paul Carter

201 River Rd, Waihe'e, Maui

HB-2381

Submitted on: 2/5/2024 9:11:41 AM

Testimony for LGO on 2/6/2024 9:15:00 AM

Submitted By	Organization	Testifier Position	Testify
John Carty	Individual	Support	Written Testimony Only

Comments:

Don't let big money buy elections. Democracy only works if its fair for the people. Support 2381!

HB-2381

Submitted on: 2/5/2024 10:03:39 AM

Testimony for LGO on 2/6/2024 9:15:00 AM

Submitted By	Organization	Testifier Position	Testify
john carty	Save Honolua Coalition	Support	Written Testimony Only

Comments:

Big money should not be able to buy elections. This bill helps keep the community empowered as a democracy needs.