

S .B. NO. 1036

JAN 24 2013

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A BILL FOR AN ACT

RELATING TO EMPLOYEES' RETIREMENT SYSTEM PERSONNEL.

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

1           SECTION 1. Chapter 88, Hawaii Revised Statutes, is amended  
2 by adding a new section to be appropriately designated and to  
3 read as follows:

4           "§88- Investment personnel. The board may, through its  
5 executive director, appoint one or more investment officers,  
6 under the direction of the chief investment officer, prescribing  
7 their duties and qualifications and fixing their salaries, who  
8 shall be exempt from chapter 76."

9           SECTION 2. Section 88-9, Hawaii Revised Statutes, is  
10 amended by amending subsections (b) and (c) to read as follows:

11           "(b) Any retirant employed in violation of this section  
12 shall:

13           (1) Reimburse the system for any retirement allowance or  
14 other benefit received from the system during the  
15 period or periods of employment in violation of this  
16 section, plus interest thereon at the rate of eight  
17 per cent per annum;

1           (2) Pay the system an amount of money equal to the  
2           employee contributions that would otherwise have been  
3           paid during the period or periods of employment in  
4           violation of this section, plus interest thereon at  
5           the rate of eight per cent per annum; and

6           (3) Contribute toward reimbursement of the system for  
7           administrative expenses incurred in responding to the  
8           situation, to the extent that the retirant is  
9           determined by the [~~administrator~~] executive director  
10          to be at fault.

11          (c) Any employer that employs a retirant in violation of  
12 this section shall:

13          (1) Pay to the system an amount of money equal to the  
14          employer contributions that would otherwise have been  
15          paid for the period or periods of employment in  
16          violation of this section, plus interest thereon at  
17          the rate of eight per cent per annum; and

18          (2) Contribute toward reimbursement of the system for  
19          administrative expenses incurred in responding to the  
20          situation, to the extent that the employer is  
21          determined by the [~~administrator~~] executive director  
22          to be at fault."

1 SECTION 3. Section 88-29, Hawaii Revised Statutes, is  
2 amended as follows:

3 "§88-29 Officers, employees, legal adviser. The board  
4 shall elect from its membership a chairperson, and by a majority  
5 vote of all its members, shall appoint an [~~administrator~~]  
6 executive director and a chief investment officer who shall be  
7 exempt from chapter 76 and serve under and at the pleasure of  
8 the board. Effective July 1, 2007, the salaries of the  
9 [~~administrator~~] executive director and chief investment officer  
10 shall be set by the board. The board shall engage actuarial and  
11 other services as shall be required to transact the business of  
12 the system. The compensation for all services engaged by the  
13 board, and all other expenses of the board necessary for the  
14 operation of the system, shall be paid at rates and in amounts  
15 the board shall approve.

16 The attorney general or an appointed representative may  
17 serve as legal adviser to the board or the board may select its  
18 own legal counsel."

19 SECTION 4. Section 88-90.5, Hawaii Revised Statutes, is  
20 amended by amending subsection (b) to read as follows:

21 "(b) Subject to the recommendation of the actuary  
22 appointed under section 88-29, the board may adopt, by motion at  
23 any duly noticed meeting of the board, actuarial tables,

S .B. NO. 1036

1 factors, and assumptions for the purposes of parts II, VII, and  
2 VIII. The tables, factors, and assumptions that are used to  
3 compute benefits shall be in writing and certified by the  
4 [~~administrator.~~] executive director."

5 SECTION 5. Section 88-211, Hawaii Revised Statutes, is  
6 amended by amending the definition of "state agency" to read as  
7 follows:

8 "(4) The term "state agency" means the [~~administrator~~]  
9 executive director of the state employees' retirement  
10 system;"

11 SECTION 6. Statutory material to be repealed is bracketed  
12 and stricken. New statutory material is underscored.

13 SECTION 7. This Act, upon its approval, shall take effect  
14 on July 1, 2013.

15  
16 INTRODUCED BY: 

17 BY REQUEST

S.B. NO. 1036

**Report Title:**

Employees' Retirement System; Personnel

**Description:**

Allows the Board of Trustees of the Employees' Retirement System, through its Administrator, to appoint one or more investment officers and changes the title of the "Administrator" of the system to "Executive Director."

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

JUSTIFICATION SHEET

DEPARTMENT: Budget and Finance

TITLE: A BILL FOR AN ACT RELATING TO EMPLOYEES' RETIREMENT SYSTEM PERSONNEL.

PURPOSE: To allow the Board of Trustees of the Employees' Retirement System of the State of Hawaii, through its Administrator, to appoint investment officers for the system and to change the title of the "Administrator" of the system to "Executive Director."

MEANS: Add a new section to chapter 88, Hawaii Revised Statutes, and amend sections 88-9(b) and (c), 88-29, 88-90.5(b) and 88-211, Hawaii Revised Statutes.

JUSTIFICATION: Successful investment of the funds of the Employees' Retirement System is one of the foundations to the longevity and stability of the system. The system currently has over eleven billion dollars in domestic and international investments and decisions made by the Board of Trustees of the system concerning these investments are critical to the current and future funding of the system, which has an unfunded actuarial accrued liability of eight billion two million dollars as of June 30, 2011.

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, the trustees themselves need not be investment experts. The role of assisting and advising the board with structuring the system's investment portfolio falls primarily with the system's investment staff which currently consists of a Chief Investment Officer and an investment specialist. The current staffing is not

adequate given the uncertainty and complexity of modern financial markets. Furthermore, the current staffing structure is out of line with best practices of other similarly sized public pension plans. The investment portfolio has increased its allocations to equity products, covered calls, real return assets, and private equity. Dedication to these investments requires 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.

In order to meet its asset goals and reduce the system's unfunded liability, the expanded and complex investment program requires an expanded professional staff to ensure that the investment portfolio is well-researched, monitored and evaluated. This proposal, therefore, allows the Board, through its Executive Director, to appoint exempt, qualified and experienced investment officers to the Employees' Retirement System investment office.

This bill also changes the title of the "Administrator" of the Employees' Retirement System to "Executive Director", to be consistent with the title of the administrative head of other government agencies and other public pension funds.

Impact on the public: None.

Impact on the department and other agencies: None.

GENERAL FUND:	None.
OTHER FUNDS:	None.
PPBS PROGRAM DESIGNATION:	BUF 141/Retirement.

OTHER AFFECTED  
AGENCIES:

None.

EFFECTIVE DATE:

July 1, 2013.