TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
SENATE BILL NO. 1269, S.D. 2
March 22, 2011

RELATING TO THE DEFINITION OF COMPENSATION FOR PURPOSES OF THE
EMPLOYEES' RETIREMENT SYSTEM

Senate Bill No. 1269, S.D. 2, amends the definition of "compensation" for the
purpose of calculating retirement benefits by limiting such calculation to regular
compensation plus some portion of additional compensation components in
subsequent year beginning July 1, 2011 for those members who are members as of
June 30, 2011. For new members hired on or after July 1, 2011, compensation for
calculating retirement benefits would not include additional compensation (i.e.,
overtime, bonuses, lump sum salary supplements, allowances, and differentials).

The Department of Budget and Finance supports the concept of this bill and
recommends that the bill be amended to exclude those additional compensation
items prospectively for all members beginning July 1, 2011. The Department
recognizes that the practice of allowing the myriad of additional compensation items
in the calculation towards retirement benefits has historically been financially
attractive to those members whose compensation includes such additional items.
However, the allowance of such broad interpretation of compensation increases the
amounts employers must pay into the Employees' Retirement System (ERS) on an
annual fiscal basis as well as increases the liability of providing retirement benefits on
a long-term liability basis. The ERS is currently faced with a significant and severely
under-funded (liability) status. The unfunded liability is so significant that we must truthfully address whether the System and the State can continue to provide annual funding to maintain the present System, increase funding to improve the existing status of the System, and/or afford to sustain the current level of benefits being offered.

Changing the definition of compensation to only include base pay for all governmental employees effective July 1, 2011 is estimated to save the State approximately $13.2 million in Fiscal Year 2012 and save the counties approximately $19.0 million, collectively. In addition, the measure would assist the ERS in reducing its unfunded liability by an estimated $500 million. Please consider the significance of this bill to achieve both a fiscal reduction in annual employer expenditures as well as taking a large step in addressing long-term unfunded liabilities.

The original version of Senate Bill No. 1269 did not provide a graduated step-down schedule for existing members to utilize some percentage of additional compensation items through June 30, 2017. While this amendment moderates the affect on employees’ retirement calculation for the next six years, it also diminishes the fiscal value of reducing employer expenditures and more slowly contributes to reducing the unfunded liability. As such, the Department recommends the House Committee on Labor and Public Employment consider reinstituting the provisions of the original version to more immediately address the fiscal issues of the employers and the unfunded-liability implications of the ERS.
Chair Rhoads and Members of the Committee:

S.B. 1269, S.D. 2 amends the definition of "compensation" for eligible service beginning on July 1, 2011 for the purpose of calculating retirement benefits. The ERS Board of Trustees supports the change in the definition of compensation for those hired on or after July 1, 2011; however, they oppose the change for existing hires employed prior to July 1, 2011.

This bill is estimated to save about $7 million in the 2012 fiscal year in employer contribution payments from the State and counties based on the FY2012 contribution rates of 15% for All Other employees and 19.7% for Police & Fire. However, a consequence of the bill will also be a reduction in the payment made to pay off the unfunded actuarial accrued liabilities (UAAL) of the ERS. While the UAAL would decrease as a result of the bill, the resulting reduction in the amortization payment of the UAAL may not be equal to the reduction in contributions received and it may be possible that future contribution rates will need to increase to make up for the reduced dollar contributions towards the UAAL now. In addition, if the bill is applicable to current employees, a significant number of the approximately 15,000 employees who are eligible to retire may retire sooner rather than later. This would also have an adverse impact on the UAAL.

In light of the uncertainties relating to the effect of benefit changes affecting current employees, the Board has decided that, in the current legislative session, it would focus on benefit changes that affect only new hires.

The ERS Board of Trustees supports the passage of S.B. 1269, S.D. 2 for State and County employees who become members of the Employees' Retirement System of the State of Hawaii (ERS) on or after July 1, 2011. Thank you for the opportunity to testify on this important measure.
March 22, 2011

The Honorable Karl Rhoads, Chair
and Members of the Committee on Labor
and Public Employment
The House of Representatives
State Capitol
Honolulu, Hawaii 96813

Dear Chair Rhoads and Members:

Subject: Senate Bill Nos. 1269, SD2 and 1341, SD2
Relating to Employees' Retirement System

The City and County of Honolulu (City) is well aware of the serious challenges the Retirement System is facing and recognizes the need for significant course corrections. The City views Senate Bills 1269, Senate Draft 2 and 1341, Senate Draft 2, as part of a package of bills proposing changes aimed at addressing the Retirement System's unfunded liability. The City supports these bills as a collective package designed to address the unfunded liability issue in a comprehensive manner—with reasonable changes to benefits as is proposed by these bills and increases in the Employer contribution rate.

The changes included in these bills, which will reduce (and eventually eliminate) overtime in pension calculations, and will update the benefits structure making it more realistic and sustainable are essential to reforming the system. We also recognize increases in the Employer contributions are a necessary element in this comprehensive reform effort. We are on record as supporting these increases even though we know they will have a severe negative impact on our budget. The adoption of all these changes will, we hope, ultimately result in a system that is more stable and Employer costs that are more predictable.
We realize this Committee is facing very difficult decisions on many matters, including this one. We urge the Committee to take the comprehensive approach needed to set the Retirement System on a sustainable path.

Thank you for the opportunity to testify on this measure.

Yours truly,

Michael R. Hansen, Director
Department of Budget & Fiscal Services

Noel T. Ono, Director
Department of Human Resources
March 15, 2011

The Honorable Karl Rhoads, Chair
Committee on Labor and Public Employment
House of Representatives
State Capitol, Room 326
Honolulu, Hawaii 96813

Dear Chair Rhoads:

Subject: S.B. 1269, S.D. 2 Relating to the Definition of Compensation for Purposes of the Employees' Retirement System

I am Kenneth G. Silva, Chair of the State Fire Council (SFC). The SFC opposes S.B. 1269, S.D. 2, which proposes to amend the definition of compensation for the purpose of calculating retirement benefits.

As defined in this bill, compensation for fire fighters is provided as normal, periodic payments which accrue in proportion to services performed. In addition to normal services, fire fighters also perform services under conditions involving overtime, stand-by duty, temporary unusual work hazards, or temporary differentials. These conditions are as much a part of the work performed as the normal work, and compensation for such conditions are included in the collective bargaining process.

Services performed under these conditions often involve prolonged hazardous exposures, higher levels of danger, or increased emergency responsibilities. When fire fighters perform these functions, they are giving their full service to the community at required levels. For that reason, pay for these conditions should continue to be included in calculations for retirement benefits.

The SFC respectfully urges your committee's deferral of S.B. 1269, S.D. 2.

Should you have any questions, please call SFC Administrator Socrates Bratakos at 723-7151.

Sincerely,

KENNETH G. SILVA
Chair
March 15, 2011

The Honorable Karl Rhoads, Chair
Committee on Labor and Public Employment
House of Representatives
State Capitol, Room 326
Honolulu, Hawaii 96813

Dear Chair Rhoads:

Subject: S.B. 1269, S.D. 2 Relating to the Definition of Compensation for Purposes of the Employees’ Retirement System

I am Jeffrey A. Murray, Fire Chief of the County of Maui, Department of Fire & Public Safety (MFD) and a member of the State Fire Council (SFC). The SFC opposes S.B. 1269, S.D. 2, which proposes to amend the definition of compensation for the purpose of calculating retirement benefits.

As defined in this bill, compensation for fire fighters is provided as normal periodic payments which accrue in proportion to services performed. In addition to normal services, fire fighters also perform services under conditions involving overtime, stand-by duty, temporary unusual work hazards, or temporary differentials. These conditions are as much a part of the work performed as the normal work, and compensation for such conditions are included in the collective bargaining process.

Services performed under these conditions often involve prolonged hazardous exposures, higher levels of danger, or increased emergency responsibilities. When fire fighters perform these functions, they are giving their full service to the community at required levels. For that reason, pay for these conditions should continue to be included in calculations for retirement benefits.

The SFC respectfully urge your committee’s deferral of S.B. 1269, S.D. 2.

Should you have any questions, please call SFC Administrator Socrates Bratakos at 723-7151.

Sincerely,

JEFFREY A. MURRAY
Fire Chief
March 22, 2011

The Honorable Karl Rhoads, Chair
and Members
Committee on Labor and Public Employment
House of Representatives
State Capitol
Honolulu, Hawaii 96813

Dear Chair Rhoads and Members:

Subject: Senate Bill No. 1269, S.D. 2, Relating to the Definition of Compensation for Purposes of the Employees’ Retirement System

I am Cary Okimoto, Captain of the Human Resources Division of the Honolulu Police Department (HPD), City and County of Honolulu.

The HPD opposes the passage of Senate Bill No. 1269, S.D. 2, which would amend the definition of "compensation" used in calculating retirement benefits.

We realize your committee is faced with very difficult decisions on many matters. However, the passage of this bill will hamper the retention of front-line and secondary supervisors who are eligible to retire. Additionally, the HPD does not have sufficient time and resources to recruit, process, and train journey level police officers to replace the expected number of vacancies that will occur as a result of this bill. This will definitely impact operations and delivery of services to the community. Further, the vacancies will hamper the staffing for the Asia-Pacific Economic Cooperation summit and other major events.

The HPD strongly opposes the passage of this bill as it will fracture its staffing and operations.

Thank you for the opportunity to testify.

APPROVED:

Sincerely,

[Signature]

CARY OKIMOTO, Captain
Human Resources Division

Serving and Protecting With Aloha
The Twenty-Sixth Legislature, State of Hawaii  
The House of Representatives  
Committee on Labor and Public Employment  

Testimony by  
Hawaii Government Employees Association  
March 22, 2011  

S.B. 1269, S.D. 2 – RELATING TO THE DEFINITION OF  
COMPENSATION FOR PURPOSES OF THE  
EMPLOYEES’ RETIREMENT SYSTEM  

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO  
strongly opposes S.B. 1269, S.D. 2, which changes the definition of “compensation”  
when calculating employee retirement benefits by providing a graduated step-down  
calculation for current members and eliminates all additional compensation when  
calculating retirement benefits for new members.  

Per the Personal Rights and Representation article in our Collective Bargaining  
Agreements, “the Employee shall have the right to refuse for good cause as determined  
by the Employer to work overtime” [emphasis added]. Per contract, although an  
employee can refuse overtime, it is the Employer’s prerogative to determine if the  
refusal is for good cause. In some cases, our members are not afforded the option to  
refuse overtime, and are required to work half-shifts prior to or after their regular shift.  
In other cases, Employees are required to work back-to-back double shifts due to staff  
shortages or for health and safety reasons. Our members provide critical services to  
the community and should be adequately compensated; both immediately in  
compensatory time off or overtime pay, and also in retirement benefit calculations that  
accurately reflect the Employee’s work.  

While we realize and understand the need for comprehensive reform to address the  
Employees’ Retirement System’s unfunded liability, it is incongruous to force an  
individual to work overtime and not count the overtime hours toward their final  
retirement calculation. We respectfully urge the committee to defer this measure.  
Thank you for the opportunity to testify in strong opposition of S.B. 1269, S.D. 2.  

Respectfully submitted,  

Randy Perreira  
Executive Director  

888 MULILANI STREET, SUITE 601 HONOLULU, HAWAII 96813-2991
My name is Dayton M. Nakanelua and I am the State Director of the United Public Workers, AFSCME, Local 646, AFL-CIO. The UPW is the exclusive bargaining representative for public employees in bargaining Unit 1 blue collar non-supervisory and Unit 10 institutional, health and correctional facilities.

The United Public Workers strongly opposes S.B. 1269, SD2, which changes the definition of "compensation" for the purpose of calculating retirement benefits by providing a gradual step-down calculation for current members and eliminates all additional compensation when calculating retirement benefits for new members.

The members of UPW provide critical services to our community. A good example is the recent tsunami that generated waves that severely damaged parts of our State. Our members were standing by throughout the night while others spent countless hours cleaning up and repairing the damages. It is only fair that public employees should be compensated fairly, not just now, but also when they retire. We respectfully urge the committee to defer this measure.

Thank you for the opportunity to testify in opposition to S.B. 1269, SD2.
Chair Rhoads, Aquino and Members of the Committee:

I strongly oppose SB1269, SD2, which changes the definition of compensation when calculating employee retirement benefits. Retirement benefits should be calculated based on an employees’ actual work, which includes overtime work.

Thank you for this opportunity to testify on this important matter.

Lieutenant Robin Nagamine
Sheriff Division
I would like to submit testimony against the passage of this bill 1269.

I strongly oppose the redefinition of compensation by this bill. Many workers including myself have stayed with civil service in spite of the fact that we were paid a lot less than the private sector.

As a pharmacist and a professional my salary always trailed the private sector by 5-10 dollars an hour. This translates to huge sums of money lost over the span of a career.

I never worked in Civil Service for the money. 
It was always the benefits.
The largest benefit being the pension. That one shining light at the end of the tunnel.

My pension was to be calculated by the number of years served and the high three years earned.

Since my salary was always low and recruitment was difficult for the Hospital on Maui.

Every 5 years or so when my salary dropped so far behind the private sector we received a shortage differential increase.

After many years my shortage was higher than my base pay.

All of the pharmacists working for the state have large shortage differentials and if this was not to be considered compensation by senate bill 1269 our dream of retirement would never come true.
Obviously our pensions would be cut in half and we could not survive on that meager amount.

Being that the state was always underpaying pharmacists and could not recruit pharmacists we had to work long hours to take care of the patients.

We are often still forced to work overtime to care for the patients and never mind doing it.

We will mind being forced to work overtime if this isn’t considered compensation for the benefit of our pension.

As I go over the previous testimony presented for and against this bill I find only one reason in common stated by those in favor of this bill.

That is we can save Money. We can save Money.

No other reason, just Money.

It seems to me that money is important but they don’t take into account anything else such as fairness, equity, and ohana, community and taking care of the people who vote them in.

When the tsunami stuck to other night I was awakened from a deep sleep by my supervisor and asked to immediately leave my home and wife and come in to work all night on an emergency basis.

I did this without question as it was the right thing to do.

When the tsunami struck we called police and all civil servants to come to the rescue.

But when you need to save a buck you forget who is there during the emergencies and through thick and thin help to run this state.

It’s just about Money!

I call on the elected officials to find that money elsewhere and leave civil servants retirement years alone.

We worked a lifetime for retirement and some will work a lifetime in the future for the pension.

Please do as we do when called in the night to rescue the community- The right thing!
Testimony for LAB 3/22/2011 10:00:00 AM SB1269

Conference room: 309
Testifier position: oppose
Testifier will be present: No
Submitted by: Jade Lai
Organization: Individual
Address:  
Phone:  
E-mail: jlai@hhsc.org
Submitted on: 3/21/2011

Comments:
March 21, 2011

To whom it may concern:

I would like to submit testimony against the passage of senate bill 1269.

I strongly oppose the redefinition of compensation by this bill. Many workers are forced to work holidays and overtime since hospitals, police, and fire departments never close. We do this without complaint. We do this because we care about our communities. We do this because we are happy to provide vital services to the citizens of Hawaii to keep them safe and healthy.

At Maui Memorial Medical Center (the only hospital on Maui), we are often forced to work overtime since the pay is so low that we can’t hire enough workers. Our salary lags the private sector by 5 to 10 dollars an hour. Thus, we receive a shortage differential in order to attract employees. In fact, the shortage differential is more than my base pay. Many workers in the state system have shortage differentials. If this were to be taken out of the equation to calculate total compensation for retirement, it would force many people to work longer or get another job after they retire. They wouldn’t be able to survive on such a meager amount. Furthermore, the only reason many people work for the state since the salary is so low, is because they know they’ll get a pension when they retire. If people know about the change in the retirement pension calculation, the quality of workers will precipitously decrease. Also, if people knew about the pension calculation change, many wouldn’t have worked this long for the state and would have already left for better employment.

Please vote against passage of this bill. Please do the moral, ethical, and responsible thing.
The Twenty-Sixth Legislature

House of Representatives

Committee on Labor and Public Employment

March 22, 2011

Testimony by

Hawaii Fire Fighters Association

S.B. No. 1269, S.D 2

RELATING TO THE DEFINITION OF COMPENSATION FOR PURPOSES OF THE EMPLOYEES' RETIREMENT SYSTEM

My name is Robert H. Lee and I am the President of the Hawaii Fire Fighters Association, Local 1463, IAFF, AFL-CIO. HFFA represents the 2,800 active and retired professional fire fighters throughout the State. HFFA strongly opposes S.B. No. 1269, S.D. 1 which amends the definition of “compensation” for the purpose of calculating retirement benefits beginning July 1, 2011 for current and prospective members.

As a matter of public safety and to ensure fire fighter safety, maintaining safe staffing levels are paramount. This sometimes requires fire fighters to be on duty in addition to their regularly scheduled shifts and it is only fair that compensation based on work performed should be included in the calculations of retirement benefits. In addition, fire fighter’s employee contributions made to the ERS are based on their entire compensation.

HFFA strongly opposes S.B. No. 1269, S.D. 2.
TESTIMONY BEFORE THE HOUSE COMMITTEE ON
LABOR AND PUBLIC EMPLOYMENT

RE: SB1269, SD2 – RELATING TO THE DEFINITION OF COMPENSATION
FOR PURPOSES OF THE EMPLOYEES' RETIREMENT SYSTEM.

March 22, 2011

WIL OKABE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Rhoads and Members of the Committee:

The Hawaii State Teachers Association offers comments on SB1269, SD2, which amends the definition of “compensation” for purpose of calculating retirement benefits.

The comments are regarding:

1. Page 2, line 8-22 and page 3, line 1-14, that state:

   (b) For service after June 30, 2011, unless a different meaning is plainly required by context, as used in this part:

   (1) For members who become members before July 1, 2011, “compensation” means regular compensation, plus additional compensation for the following years of service in the following ratios: . . . .

Does the statement, above, apply to any member before July 1, 2011, including teachers already in the system, or does it mean members who are members between June 30, 2011 and July 1, 2011? If this applies to all members hired before July 1, 2011, HSTA opposes this measure.

2. On page 4, line 1-2, it states:

   “...that “additional compensation” does not include twelve-month differentials for employees of the department of education."
Does the statement above only apply to members on or after July 1, 2011? It is not quite clear if this statement applies to current members hired before July 1, 2011. If this statement is only meant for members hired on or after July 1, 2011, then HSTA is opposed to this. HSTA believes this should apply to all members before, on, or after July 1, 2011.

Thank you for the opportunity to testify in strong opposition to SB 1269, SD2.
Testimony for LAB 3/22/2011 10:00:00 AM SB1269

Conference room: 309
Testifier position: oppose
Testifier will be present: No
Submitted by: Barbara Uwekoolani
Organization: Individual
Address:
Phone:
E-mail: umomona@hotmail.com
Submitted on: 3/21/2011

Comments:
I oppose this bill because as an RN in the Recovery Room at Maui Memorial I am Mandated to work overtime. We are subject to call 6-8 times a month. I must give up outings with my family, remain in a sober state (even though I'm basically a teetotaler) and be at the hospital and ready to work in 30 minutes. To penalize me by not allowing my overtime to be calculated in my pension is a slap in my face and other RNs like me for our dedication. I realize the predicament we are in but it makes me want to give up 26 years of bedside nursing and take an easy desk job somewhere. You will find difficult to find replacements for myself and other nurses as we choose to leave public service if you implement this measure Thank you
Testimony for LAB 3/22/2011 10:00:00 AM SB1269

Conference room: 309
Testifier position: oppose
Testifier will be present: No
Submitted by: Judy Kodama
Organization: Individual
Address:
Phone:
E-mail: kodamaj001@hawaii.rr.com
Submitted on: 3/21/2011

Comments: