

# H.B. NO. 1061

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## A BILL FOR AN ACT

RELATING TO EMPLOYER CONTRIBUTIONS TO THE EMPLOYEES' RETIREMENT SYSTEM.

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

1           SECTION 1. The purpose of this Act is to provide for  
2 increased rates for employer contributions to the employees'  
3 retirement system of the State of Hawaii.

4           The legislature finds that based on the five-year actuarial  
5 experience review performed as of June 30, 2016, by the system's  
6 actuary pursuant to section 88-105, Hawaii Revised Statutes, the  
7 actuary recommended changes to the actuarial assumptions used  
8 for the actuarial valuation of the system. The recommended  
9 changes were adopted by the system's board of trustees. Under  
10 the new assumptions, the period required to amortize the  
11 unfunded accrued liability of the system will increase from  
12 twenty-seven years to exceed thirty years.

13           The contributions the State and county agencies are  
14 required to make to the system to meet obligations for  
15 retirement benefits are based on a percentage of payroll.  
16 Section 88-122, Hawaii Revised Statutes, provides that the  
17 contribution rates are subject to adjustment if the period

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1 required to amortize the unfunded accrued liability of the  
2 system exceeds thirty years. To maintain the twenty-seven year  
3 funding period prior to the revaluation, and if no benefit  
4 changes are made, the actuary recommended an increase in the  
5 employer contribution rate to forty-two and one-half per cent  
6 for police officers, firefighters, and corrections officers, and  
7 to twenty-four and three-quarters per cent for all other  
8 employees.

9 SECTION 2. Section 88-122, Hawaii Revised Statutes, is  
10 amended by amending subsection (e) as follows:

11 "(e) Commencing with fiscal year 2005-2006 and each  
12 subsequent fiscal year[7] until fiscal year 2007-2008, the  
13 employer contributions for normal cost and accrued liability for  
14 each of the two groups of employees in subsection (a) shall be  
15 based on fifteen and three-fourths per cent of the member's  
16 compensation for police officers, firefighters, and corrections  
17 officers and thirteen and three-fourths per cent of the member's  
18 compensation for all other employees. Commencing with fiscal  
19 year 2008-2009 and each subsequent fiscal year until fiscal year  
20 2011-2012, the employer contributions for normal cost and  
21 accrued liability for each of the two groups of employees in  
22 subsection (a) shall be based on nineteen and seven-tenths per  
23 cent of the member's compensation for police officers,

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1 firefighters, and corrections officers and fifteen per cent of  
2 the member's compensation for all other employees. In fiscal  
3 year 2012-2013, the employer contributions for normal cost and  
4 accrued liability for each of the two groups of employees in  
5 subsection (a) shall be based on twenty-two per cent of the  
6 member's compensation for police officers, firefighters, and  
7 corrections officers and fifteen and one-half per cent of the  
8 member's compensation for all other employees. In fiscal year  
9 2013-2014, the employer contributions for normal cost and  
10 accrued liability for each of the two groups of employees in  
11 subsection (a) shall be based on twenty-three per cent of the  
12 member's compensation for police officers, firefighters, and  
13 corrections officers and sixteen per cent of the member's  
14 compensation for all other employees. In fiscal year 2014-2015,  
15 the employer contributions for normal cost and accrued liability  
16 for each of the two groups of employees in subsection (a) shall  
17 be based on twenty-four per cent of the member's compensation  
18 for police officers, firefighters, and corrections officers and  
19 sixteen and one-half per cent of the member's compensation for  
20 all other employees. Commencing with fiscal year 2015-2016 [~~and~~  
21 ~~each subsequent fiscal year,~~] until fiscal year 2016-2017, the  
22 employer contributions for normal cost and accrued liability for  
23 each of the two groups of employees in subsection (a) shall be

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1 based on twenty-five per cent of the member's compensation for  
2 police officers, firefighters, and corrections officers and  
3 seventeen per cent of the member's compensation for all other  
4 employees. In fiscal year 2017-2018, the employer contributions  
5 for normal cost and accrued liability for each of the two groups  
6 of employees in subsection (a) shall be based on twenty-nine per  
7 cent of the member's compensation for police officers,  
8 firefighters, and corrections officers and nineteen per cent of  
9 the member's compensation for all other employees. In fiscal  
10 year 2018-2019, the employer contributions for normal cost and  
11 accrued liability for each of the two groups in subsection (a)  
12 shall be based on thirty-three per cent of the member's  
13 compensation for police officers, firefighters, and corrections  
14 officers and twenty-one per cent of the member's compensation  
15 for all other employees. In fiscal year 2019-2020, the employer  
16 contributions for normal cost and accrued liability for each of  
17 the two groups in subsection (a) shall be based on thirty-seven  
18 per cent of the member's compensation for police officers,  
19 firefighters, and corrections officers and twenty-three per cent  
20 of the member's compensation for all other employees.  
21 Commencing with fiscal year 2020-2021 and each subsequent fiscal  
22 year, the employer contributions for normal cost and accrued  
23 liability for each of the two groups in subsection (a) shall be

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1 based on forty-one per cent of the member's compensation for  
2 police officers, firefighters, and corrections officers and  
3 twenty-five per cent of the member's compensation for all other  
4 employees. The contribution rates shall amortize the total  
5 unfunded accrued liability of the entire plan over a period not  
6 to exceed thirty years.

7 The contribution rates shall be subject to adjustment:

- 8 (1) If the actual period required to amortize the unfunded  
9 accrued liability exceeds thirty years;  
10 (2) If there is no unfunded accrued liability; or  
11 (3) Based on the actuarial investigation conducted in  
12 accordance with section 88-105."

13 SECTION 3. New statutory material is underscored.

14 SECTION 4. This Act, upon its approval, shall take effect  
15 on July 1, 2017.

16  
17 INTRODUCED BY: \_\_\_\_\_



BY REQUEST

JAN 23 2017

# H.B. NO. 1061

**Report Title:**

Employees' Retirement System; Employer Contribution Rates

**Description:**

Sets new rates for employer contributions to the Employees' Retirement System.

*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 EMPLOYER CONTRIBUTIONS TO THE EMPLOYEES' RETIREMENT SYSTEM.

PURPOSE: To provide for increased rates for employer contributions to the Employees' Retirement System of the State of Hawaii beginning with fiscal year 2017-2018.

MEANS: Amend section 88-122(e), Hawaii Revised Statutes (HRS).

JUSTIFICATION: The contributions State and county agencies are required to make to the Employees' Retirement System of the State of Hawaii to meet obligations for retirement benefits are based on a percentage of payroll. Section 88-122, Hawaii Revised Statutes, provides that the contribution rates are subject to adjustment if the period required to amortize the unfunded accrued liability of the system exceeds thirty years. Based on the five-year actuarial experience review performed as of June 30, 2016, by the system's actuary pursuant to section 88-105, HRS, the actuary recommended changes to the actuarial assumptions used for the actuarial valuation of the system. The Board of Trustees of the system adopted the changes to the actuarial assumptions recommended by the actuary. Under the new actuarial assumptions of the current contribution rates, the period required to amortize the unfunded accrued liability of the system will exceed thirty years. To remain under a funding period of thirty years, and if no benefit changes are made, the actuary recommended a phased-in increase in the employer contribution rate from 25 percent to 41 percent over four years for police officers, firefighters, and corrections officers, and a phased-in increase in the

employer contribution rate from 17 percent to 25 percent over four years for all other employees. These increases will begin in the 2017-2018 fiscal year and continue through the 2020-2021 fiscal year and will remain at the final increased rates for each subsequent fiscal year.

Impact on the public: None.

Impact on the department and other agencies:  
The increase in the percentage rate for employer contributions to the Employees' Retirement System is likely to result in an increase in the amounts required to be paid by state and county agencies to meet employer obligations for retirement benefits.

GENERAL FUND: See above.

OTHER FUNDS: See above.

PPBS PROGRAM  
DESIGNATION: BUF-141/Retirement.

OTHER AFFECTED  
AGENCIES: All state and county public employers.

EFFECTIVE DATE: July 1, 2017.