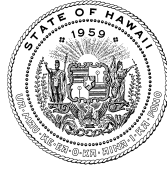


DAVID Y. IGE  
GOVERNOR



WESLEY K. MACHIDA  
DIRECTOR

RODERICK K. BECKER  
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**  
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 (OFAM)

TESTIMONY BY WESLEY K. MACHIDA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR  
ON  
HOUSE BILL NO. 2446, H.D. 2

March 16, 2016  
9:00 a.m.

RELATING TO SEPARATION BENEFITS

House Bill No. 2446, H.D. 2, authorizes public employees facing position abolishment, reduction-in-force (RIF), or workforce restructuring to opt to receive either voluntary severance benefits or a special retirement benefit in lieu of exercising any RIF rights.

The Department of Budget and Finance strongly opposes this bill.

First, based on the provisions of this measure, the cost could be significant as all affected employees would qualify (in the case of the Hawaii Health Systems Corporation's Maui Region Health Systems transitioning to Maui Health Systems) for the voluntary severance benefit or special retirement benefit. The provisions of the bill appear to be an overly broad approach to address a situation where only a limited number of the estimated 1,479 affected employees may not be re-employed by Maui Health Systems. A more cost effective solution may be looking at inter-jurisdictional employment agreements to address those who may not retain employment with Maui Health Systems.

A second concern is that previous RIFs were implemented without offering employees severance packages or retirement benefit enhancements. The provisions of this bill offer an open-ended package of separation benefits for any future RIF.

Third, the cost of paying for voluntary severance benefits or special retirement benefits nullifies the intent of a RIF, which is to reduce the size and cost of government. While the voluntary severance package would only be a one-time cost, retirement benefit enhancements have a long-term cost to the State and result in a higher unfunded actuarial accrued liability (UAAL) for the Employees' Retirement System (ERS). Although the special retirement benefits are exempt from Section 88-99 and the bill requires that the State pay the ERS the additional actuarial present value of the benefit enhancements over a period of five years, the benefit enhancement is counter to the purpose of Section 88-99, Hawaii Revised Statutes, which places a moratorium on benefit enhancements until such time as the actuarial value of the ERS' assets is 100% of the ERS' UAAL. Each exception from Section 88-99 increases the ERS' UAAL and affects the efficacy of the moratorium.

DAVID Y. IGE  
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 SENATE COMMITTEE ON JUDICIARY AND LABOR  
ON  
HOUSE BILL NO. 2446, H.D. 2

MARCH 16, 2016, 9:00 A.M.

RELATING TO SEPARATION BENEFITS

Chair Keith-Agaran, Vice Chair Shimabukuro and Members of the Committee,

H.B. 2446, H.D. 2 authorizes the State executive branch and other jurisdictions to offer a voluntary severance or special retirement benefit to its employees who elect to separate from service when their positions are identified for abolishment, affected by reductions-in-force or workforce restructuring, including privatization.

Board of Trustees of the Employees' Retirement System (ERS) has not taken a formal position on the "special retirement benefit" offered by this proposal. However, the Board reiterates its unwavering stance that any benefit provided must include the funding necessary to cover its cost and/or amortize the cost of the benefit over time thereby avoiding any increase in the plan's unfunded liability.

The loss to the ERS of ongoing employer and employee contributions as envisioned by Act 103, SLH 2015, even absent of other special provisions, is forecast to increase the plan's unfunded liability substantially. This increase in the unfunded liability may result in higher contribution requirements or the maintenance of existing contributions for a longer period of time.



Employees' Retirement System  
of the State of Hawaii

In addition, the ERS staff has the following concerns and technical corrections regarding Section 2 of H.B. 2446, H.D. 2:

1. A preliminary review of the special retirement benefits provided by H.B. 2446, H.D. 2 by the ERS actuary determines that the actuarial cost of these enhancements would be approximately \$11.2 million. The ERS would expect to see a decrease in its unfunded actuarial accrued liability (UAAL) of approximately \$35 million due to the termination of the impacted employees. However, the expected impact on ERS funding due to the loss of payroll for the employees and the employer will be significantly greater. With the loss of approximately \$100 million in covered payroll, the ERS will receive \$11 to \$15 million less in contributions in fiscal year 2017 towards the payment of its UAAL. The present value of these lost future contributions over the next 26 years is approximately \$213 million. In order to make the ERS whole, the contribution rates for the remaining employers would need to increase by an additional .39 percent.
2. §\_\_-3, subsection (c), this subsection (beginning on line 12 of page 6) should read:  
**“(c) Notwithstanding the age and length of service requirements of sections 88-73, 88-281, and 88-331, an employee who is a member of the employees’ retirement system shall qualify for the special retirement benefit if, on the employee’s retirement date, the employee is less than five years younger than the minimum age for unreduced retirement.”** This would clarify that the 5-year criteria is based on the unreduced retirement age (which would also be consistent with provisions provided with government restructuring under Act 253, SLH 2000). The special retirement benefit for those eligible for “normal” retirement is already estimated to add \$11.2 million to the ERS’s unfunded liability; including an even larger group of members by adding those eligible for early retirement would add an additional \$1.2 million – increasing the ERS unfunded liability by a total of \$12.4 million.
3. §\_\_-5, the sentence beginning on line 17 of page 8, should be revised as follows:  
**“Any employee who received a special retirement benefit under this chapter and returns to public service as an employee or contractor shall meet the age and service requirements that would otherwise be applicable without the special retirement allowance.”** Eligibility for retirement benefits is based on the ERS

membership date, which may not necessarily be the same as when an individual first entered State employment and would therefore be inconsistent with the treatment of other “vested” members.

4. §\_\_\_-3, subsection (a), (sentence beginning on line 14 of page 5) should be revised as follows:

**“Any employee who is affected by Act 103, Session Laws of Hawaii 2015, may elect, if the employee is a vested member of the employees’ retirement system and meets any of the criteria specified by subsection (c), the special retirement benefit provided by this section in lieu of exercising any reduction-in-force rights under chapter 89 or 89C, as applicable, and in lieu of receiving any voluntary severance benefits under section \_\_\_-2.”**

This revision will make it clear that it is applicable only to employees affected by Act 103, Session Laws of Hawaii 2015 and would be consistent with §\_\_\_-2.

On behalf of the Board of Trustees and staff of ERS we wish to thank you for the opportunity to testify.

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**Date:** Tuesday, March 15, 2016 11:28:11 AM

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**HB2446**

Submitted on: 3/15/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Arnold Abe	Individual	Support	No

Comments:

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**HB2446**

Submitted on: 3/14/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Candace Tablit	Individual	Support	No

Comments: Being employed in the healthcare industry, I can certainly understand the search for funding alternatives such as partnering with private entities as medical costs increase when reimbursements do not. However, I can also empathize with MMMC employees faced with financial hardship as well as job uncertainty - many after having given the best part of their lives to their careers. Often they have chosen to forgo higher paying opportunities in the private sector for love of the job or adding to the knowledge base of their field of expertise - all with the expectation of a bright future when they retire. I would like to request that you pass this bill so that all HHSC employees may retire in a way that rewards them for their sacrifices, hard work and dedication.

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**HB2446**

Submitted on: 3/15/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
David Higginson	Individual	Support	No

Comments: I have been an employee at Maui Memorial Medical Center for nearly 4 years. I support the public private partnership, but the employment offer from Kaiser is effectively a pay cut with the same base salary but loss of state benefits. Any help financially during the transition would be welcome, if not necessary to maintain my current bills. I don't want to leave the island, but can only afford to stay with enough income.

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**HB2446**

Submitted on: 3/12/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
David May	Individual	Support	No

Comments: To all out legislators. Please support and pass these Bills related to the futures of so many dedicated workers at MMMC and throughout the Maui Region. We have offered support for our leaders and need you to grant the retirement benefits that will no longer be in place to grow after June 30, 2016. These bills and passage will greatly assist us to plan our futures on Maui, our home. We ask you to move them to the next step of this process to make the measures as favorable to as many as possible. Thanks for your support and consideration.

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**HB2446**

Submitted on: 3/11/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
kirk yagi	Individual	Comments Only	No

Comments: The amended version HB2446 HD2 will leave out employees facing abolishment of their position due to privatization who have over 25 years of service at MMMC but have NOT REACHED THE 5 YEARS WITHIN RETIREMENT AGE amendment. This penalizes them just for the fact that they started their career at a young age but have demonstrated loyalty towards their employer. It provides them with neither monetary or retirement incentive due to the fact that they still need to work the additional years towards retirement but will be forced to find another position within the state or county system at a possibly lower paying position in order to fulfill the necessary requirements of the State ERS. The other option is RIF. And this involves the hardship of relocating to another island. Please reconsider the amendment and only the amendment to HB2446 as unfair.

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**HB2446**

Submitted on: 3/15/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Mary Elizabeth O'Malley	Individual	Comments Only	No

Comments: Please support this bill. The people of MMMC have worked tirelessly looking after members of our community

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March 15, 2016

Dear Legislators,

Thank you for the opportunity to submit testimony on the impact of privatization on Maui Memorial employees and their families. Thank you for any consideration that you make regarding the impact on staff and patient care during this transition, and thank you for working to improve health care on Maui.

As we move closer to the transition date to Kaiser, the stress of this transition becomes more real and more apparent. I have seen a number of my co-workers move from Maui Memorial to other state and county jobs. Our Ohana is shrinking and stressed. I am writing to inform you of the impact of the Public-Private partnership on a personal level. While I am happy to hear that services will be expanded and that healthcare on Maui will get an infusion of cash, expertise and energy, I am concerned about the impact on individual workers. Here are my personal challenges:

I am an RN with a Master's Degree in Nursing Science (paid for on my own dime), and I have dedicated the bulk of my career as a nurse to Maui Memorial. I have also been **paid less** than the private sector with compensation of more leave accrual, and—most importantly—the hope of retirement. As I follow my journey towards Privatization, I find that Kaiser is offering the same pay as I currently earn-- but less benefits. It also seems self-evident that the benefits of long-term state employment are loaded on the back end with retirement making up for the lower pay along the way. Given that Kaiser will be subsidized considerably at the onset of their takeover (in addition to monies set aside for capital improvements), it seems ironic that soon-to-be retirees will be cut short.

Additionally, there are simply very few nursing jobs in my geographic area after the Maui Region transition. I am 58, and there are virtually no nursing jobs within the State or County on Maui so that I may continue the last 2-3 years of my tenure to retire without a 22% penalty. Due to emergency hire and other unusual HR policies/practices, my calculated years of service fall short of the 30 years needed to retire without penalty. I worked part time in the Critical Care Unit while job sharing another position in Quality and Utilization Management. Unfortunately, HR practices only count this as part-time for that time period. Having both of those jobs simultaneously was enriching for me professionally, and it allowed for my clinical expertise to be used in the Quality realm. But now I pay the price of less years of service for my retirement calculation. I have actually been employed at MMMC since 1988 and the majority of time I worked 40 or more hours per week—in Critical Care, Quality, Education, Case Management, and as an instructor at Maui Community College (now UH Maui).

I could use my RIF benefits to try to finish my last few years, but this would create a hardship due to travel, and I would not like the karma associated with “bumping” another employee. This is simply a trickle down solution in which I will not participate. I pay taxes and work hard to thrive on Maui, so this option does not seem to be viable. Lastly, I also have a small egg farm, and my partner would be completely burdened by caring for the animals by himself.

Lastly but definitely not least, I have an 84 year old mother who lives alone on the mainland. I would like to be able to assist her if needed using FMLA benefits. My vacation/sick leave balances will be zero'd as a result of this transition, so I would be in a situation to have to take leave without pay. I have worked at MMMC since 1988, and I have banked a considerable amount of time since I have stayed fairly healthy and not abused my benefits. If I take leave without pay for a time period exceeding a week or two, I will also need to pay the employer portion of my health insurance premium.

I am unable to defer any payout of my vacation (3 months) since I already contribute the maximum amount into my 403b (deferred comp). So this will affect my tax situation.

I am sure that the intent of the legislation for privatization not only wanted to provide for the people who live and love Maui County but also for the workers who have endured the challenges of employment in the State system. Maui Memorial has been the only option for nurses who want to work in an acute care facility. Thank you for your consideration during this transition.

Respectfully,

Penny Souder RN MS  
Maui Memorial Medical Center

Here is my service history for the State of Hawaii

- August 1988 Began working as "Emergency Hire" RN at Maui Memorial Medical Center in the Intensive Care Unit (ICU). Emergency Hire status is without benefits, without service towards retirement, and without extra pay. I find this ironic since Hawaii was touted as the "Health State"
- June 1989 Hired as permanent to continue my employment as an ICU staff RN
- Worked full time with ICU RN staff as half of my job and job shared a Quality Management/UR position with an RN from the Surgical Floor – unfortunately it only counted as part-time even though I was scheduled full time
- Obtained my Master's Degree in the Nursing Program at UH through an outreach program. I did this on my own time over 5 years and my own dime including travel to Oahu for the clinical portion of my education
- I worked part-time as an Instructor at MCC Nursing Program but this does not count toward my retirement since I was a clinical instructor for 2.5 days per week
- Worked 10 years as a Case Manager
- Worked as Clinical Educator and coordinated American Heart Association Education Programs as well
- Worked another 15 months as a Staff RN in ICU
- Worked as Clinical Appeals Coordinator
- Currently working as Clinical Documentation Improvement RN

My name is Rorick Kramer. I have input for  
HB 2445 – Relating to Public Employees  
HB 2446 – Relating to Separation of Benefits  
HB 2606 – Relating to Employees Retirement System

My name is Rorick Kramer. I have been employed with Kula Hospital as a Cook IV Kitchen Manager since August 1, 1997, and I am presently eligible to retire with my full pension on October 1, 2016, when I reach age 62.

I left a good paying job in the hotel to work at Kula Hospital. One of the incentives to work for the State was the benefit package that the State had to offer, one of which was being able to retire at the age of 62.

Due to the Kaiser partnership with the State effective July 1, 2016, and the planned reduction in force effective June 30, 2016, I (and many others) will no longer be employed by the State of Hawaii as a government employee. I will lose the benefit that I worked so hard for. Having had colon cancer in 2010 and a recovering cancer patient, I looked forward to receiving my full pension at age 62.

Consideration and fairness should be given to all those that are displaced from their state jobs in all stages of their employment as this was not our choice to leave government service prior to our planned retirement date.

Thank you for your time and consideration.

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**HB2446**

Submitted on: 3/15/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Suzy Okino	Individual	Support	No

Comments:

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**HB2446**

Submitted on: 3/15/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Thomas Calhoun	Individual	Support	No

Comments:

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**HB2446**

Submitted on: 3/14/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Virgil Medeiros	Individual	Support	No

Comments: I ask that this committee please consider passage of this measure to assist the Maui region hospital employees whose jobs will be privatized through no fault of their own. They have dedicated themselves to serving their community as civil service workers and it would be unjust to ignore their situation.

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