

# S.B. NO. 3070

JAN 24 2024

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## A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM FUNDING PERIOD.

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

1           SECTION 1. The purpose of this Act is to reduce the  
2 maximum projected funding period limit to amortize the total  
3 unfunded accrued liability of the Employees' Retirement System  
4 of the State of Hawaii (the "System") from thirty years to  
5 twenty years. This reduction would lower future costs and be  
6 viewed very favorably by the State's bond rating agencies and  
7 align the System with new Actuarial Standards of Practice. The  
8 legislature finds that due to the System's long-term investment  
9 performance, including fiscal year 2021-2022, the funding period  
10 in which the System is expected to be fully funded has steadily  
11 decreased from the forecasted thirty years in fiscal year 2015-  
12 2016 to twenty-four years in fiscal year 2021-2022. The  
13 System's funded ratio also has improved from 54.7 per cent in  
14 fiscal year 2015-2016 to 61.2 per cent in fiscal year 2021-2022  
15 and the actual unfunded actuarial accrued liability has  
16 decreased from a peak of \$14,600,000,000 in fiscal year 2019-  
17 2020 to \$13,500,000,000 in fiscal year 2021-2022. Now that the  
18 increased employer contribution rates have reached the top of

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1 the phase-in, the strategy put in place by the legislature on  
2 July 1, 2017, is accomplishing the original goals. It is  
3 currently projected that the System's funded ratio will continue  
4 to improve and the unfunded actuarial accrued liability is  
5 expected to decline year over year going forward. However,  
6 there have been changes in professional actuarial industry  
7 guidance on appropriate funding policies that now recommend a  
8 maximum liability funding period of twenty years or less. This  
9 Act amends the maximum funding period to amortize the total  
10 unfunded accrued liability of the System to start at twenty-five  
11 years and lower by one year each year thereafter until reaching  
12 twenty years. A phase-in strategy would strengthen the System  
13 over the long term without impacting the expected path toward  
14 full-funding or current contribution rates absent severe and  
15 long-term adverse experience in the financial market.

16 SECTION 2. Section 88-21, Hawaii Revised Statutes, is  
17 amended by adding a new definition to be appropriately inserted  
18 and to read as follows:

19 "Maximum funding period": a period over which the  
20 amortization of the unfunded accrued liability shall not exceed  
21 twenty-five years as determined by the actuarial valuation as of  
22 June 30, 2024, twenty-four years as determined by the actuarial

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1 valuation as of June 30, 2025, twenty-three years as determined  
2 by the actuarial valuation as of June 30, 2026, twenty-two years  
3 as determined by the actuarial valuation as of June 30, 2027,  
4 twenty-one years as determined by the actuarial valuation as of  
5 June 30, 2028, and twenty years as determined by the actuarial  
6 valuation as of June 30, 2029, and thereafter."

7 SECTION 3. Section 88-122, Hawaii Revised Statutes, is  
8 amended by amending subsection (e) to read as follows:

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

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

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

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~~] the maximum  
10 funding period;  
11 (2) If there is no unfunded accrued liability; or  
12 (3) Based on the actuarial investigation conducted in  
13 accordance with section 88-105."

14 SECTION 4. Statutory material to be repealed is bracketed  
15 and stricken. New statutory material is underscored.

16 SECTION 5. This Act shall take effect upon its approval.

17

18

INTRODUCED BY: 

19

BY REQUEST

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**Report Title:**

ERS; Funding Period

**Description:**

Lowering the Employees' Retirement System's funding period to amortize the System's total unfunded accrued liability.

*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 THE EMPLOYEES' RETIREMENT SYSTEM FUNDING PERIOD.

PURPOSE: To decrease the maximum projected funding period limit to amortize the total unfunded accrued liability of the Employees' Retirement System (ERS) from thirty years to twenty years.

MEANS: Amend sections 88-21 and 88-122(e), Hawaii Revised Statutes (HRS).

JUSTIFICATION: A meaningful reduction in the current funding period applicable to ERS's unfunded accrued liabilities from thirty years down to twenty years would lower future costs and be viewed very favorably by the State's bond rating agencies and align ERS with new Actuarial Standards of Practice. Due to the ERS's long-term investment performance, including in fiscal year 2021-2022, the ERS is projected to be fully funded in twenty-four years, a decrease from the thirty years forecast in fiscal year 2015-2016. The ERS's funded ratio also improved to 61.2 percent in fiscal year 2021-2022 from 54.7 percent in fiscal year 2015-2016, and the actual unfunded actuarial accrued liability has decreased from a peak of \$14,600,000,000 in fiscal year 2019-2020 to \$13,500,000,000 in fiscal year 2021-2022. Further, the increased employer contribution rates have reached the maximum level of the phase-in strategy that was put in place by the legislature on July 1, 2017, thereby accomplishing the original goal.

It is currently projected that the ERS's funded ratio will continue to improve, and the unfunded actuarial accrued liability is expected to decline year by year. In addition, there have been changes in the professional actuarial industry guidance on



appropriate funding policies, which now recommend a maximum liability funding period of twenty years or less. This bill proposes that the maximum funding period for the total unfunded accrued liability of the ERS initially be decreased from thirty years to twenty-five years, then decreased by one year for each year thereafter until the maximum funding period reaches twenty years. This phase-in strategy is expected to strengthen the ERS's financial position over the long term with minimal impact on the ERS's goal of full funding without increasing the current contribution rates absent any unforeseen severe and/or long-term financial adverse event in the financial market.

Impact on the public: None.

Impact on the department and other agencies:  
None.

GENERAL FUND: None, although the State's long-term borrowing costs may be reduced by stable or improved credit ratings.

OTHER FUNDS: None.

PPBS PROGRAM  
DESIGNATION: BUF 141/Retirement.

OTHER AFFECTED  
AGENCIES: None.

EFFECTIVE DATE: Upon approval.