



RESOLUTION

URGING THE CITY ADMINISTRATION AND THE HAWAII STATE LEGISLATURE TO TAKE STEPS TO ELIMINATE OVERTIME ABUSE AND PENSION SPIKING.

WHEREAS, the State of Hawaii Employees' Retirement System ("ERS") provides retirement, disability, and survivor benefits to all State and county employees; and

WHEREAS, the unfunded actuarial accrued liability ("unfunded liability") is the amount anticipated to be needed by the ERS to fund future benefit payments; and

WHEREAS, the most recent annual actuarial valuation report of the ERS prepared by Gabriel, Roeder, Smith & Company reported that the system's unfunded liability as of June 30, 2016, had risen from \$8.77 billion in 2015 to \$12.4 billion; and

WHEREAS, at current contribution rates, the actuary has calculated that it will take 66 years for the State and counties to fully amortize this amount of unfunded liability; and

WHEREAS, Hawaii Revised Statutes §88-122(e)(1) specifies that contribution rates must be sufficient to amortize the total unfunded liability of the ERS over a period not to exceed 30 years; and

WHEREAS, the primary expense for the ERS are payments of retiree pension benefits which are calculated based on a retiring employee's three highest years of compensation which, for employees hired prior to July 1, 2012, include overtime pay; and

WHEREAS, the inclusion of overtime pay, if the amount of overtime pay is significant in the years immediately preceding retirement, can artificially inflate a retiring State or county employee's salary for pension calculation purposes and is commonly known as "pension spiking"; and

WHEREAS, pension spiking is a contributing factor to the ERS's retirement benefit expenses because it enables a retiring employee to receive a larger pension than they would otherwise be entitled to receive and may be the result of overtime abuse where management lacks the ability to stop such abuse or, in some cases, may be complicit in the abuse; and



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WHEREAS, Act 152 (2012), enacted on June 26, 2012, removed overtime payments from the calculation for retirement compensation for employees hired on or after July 1, 2012; and

WHEREAS, the Hawaii State Senate Committee on Ways and Means found that this Act reduces the unfunded liability of the ERS and is an important step in improving the long-term viability of the ERS; and

WHEREAS, it is the Council's understanding that pension spiking can be eliminated by enforcing tighter control on overtime abuse and removing future earned overtime payments from the calculation for retirement compensation for all employees; now, therefore,

BE IT RESOLVED by the Council of the City and County of Honolulu that the Mayor and Director of Human Resources are urged to take immediate action to stop overtime abuse and address any management complicity with such abuse; and

BE IT FURTHER RESOLVED, that the Hawaii State Legislature is urged to reform retirement benefits for existing employees of the State and counties by removing future earned overtime payments from the calculation for retirement benefits for all State and county employees, regardless of date of employment; and



CITY COUNCIL
CITY AND COUNTY OF HONOLULU
HONOLULU, HAWAII

No. 17-240

RESOLUTION

BE IT FINALLY RESOLVED that copies of this resolution be transmitted to the President of the Hawaii State Senate, the Speaker of the Hawaii State House of Representatives, the Mayor, the Director of Human Resources, and the Board of Trustees of the Employees' Retirement System of the State of Hawaii.

INTRODUCED BY:

[Handwritten Signature]

DATE OF INTRODUCTION:

AUG 25 2017

Honolulu, Hawaii

Councilmembers

SEP 10 2018 10:23

FILED
AUG 25 2018
PURSUANT TO ROH Sec. 1-2.5