



UNIVERSITY OF HAWAI'I SYSTEM

TESTIMONY

S.B. 2073, SD 2, HD 1, RELATING TO THE UNIVERSITY OF HAWAII

Testimony Presented Before the
House Committee on Finance

March 30, 2004

By

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Chief of Staff, University of Hawai'i

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Chair Takamine and Members of the Committee:

The purpose of this bill is to amend Section 88-8, Hawai'i Revised Statutes, in following major ways. First, it amends the law to allow all Board of Regents' appointees to participate in a University of Hawai'i optional retirement system, not just faculty. Second, it dictates the type of optional retirement plan that shall be established at the University by mandating that the Board of Regents designate no fewer than three companies to provide annuity contracts under the optional plan. Third, it deletes restrictive language that has made it impossible to implement an optional retirement plan and requires the State to remit to the University 6% of the salaries of employees electing to participate in the optional plan. Finally, it restricts membership in the University plan to new hires. The University of Hawaii supports S.B. 2073, SD2, HD1 with amendments.

Section 88-8, Hawai'i Revised Statutes authorizes the Board of Regents to establish an optional retirement system for its faculty and academic administrators. SB 2073, SD 2, HD1 proposes to broaden the scope of the current law to allow all Board of Regents' appointees to participate in the optional retirement plan. The University does not object to extending participation to other than faculty employees; however, the language of this bill could be simplified by restricting eligibility to appointees of the University of Hawai'i Board of Regents who are eligible for membership in the State employees' retirement system.

The language in SB 2073, SD 2, HD 1 mandating there be no fewer than three companies to provide annuity contracts under the optional plan arguably intrudes upon the jurisdiction of the Board of Regents over the internal management and operation of the University. While the University may eventually choose more than one provider this mandate would reduce the flexibility in establishing such a plan and may require additional administrative costs. By mandating multiple providers this provision may inadvertently reduce the competition and benefits from the providers. It is also likely that each provider would charge a fee for administration of such a program. We do believe that the structure of the optional retirement plan should be determined through negotiations with the respective unions, not dictated by statute. The Board of Regents should have the flexibility to establish a plan that best meets the needs of the University and its employees. It is our recommendation that the current language of section 88-8(b), Hawaii Revised Statutes, remain unchanged.

Section 88-8(e), Hawaii Revised Statutes, provides that the Employer's share of the cost of the optional retirement plan cannot exceed the amount for any group currently in the Employees' Retirement System. This limitation has made it impossible to implement a University plan because the amount of the Employer's contribution fluctuates based on market conditions. This bill would remove this limitation and replace it with language requiring the State to remit to the University an amount equal to 6% of the employee's compensation in lieu of any contribution it would have made on behalf of the employee had he or she not opted to participate in the University plan. The remittance rate of 6% is being proposed because it is the normalized contribution rate at which the State funds the Employees' Retirement System. This proposal, if adopted, would not increase the cost to the State and would allow the University to establish an optional retirement plan similar to those at universities on the mainland. The University would be responsible for obtaining funding for any plan costs exceeding the amount of the State's remittance to the University. We support this change.

This bill would also limit membership in the University plan to persons hired or appointed after the effective date of this Act. While we would have wanted to extend membership in the University plan to current employees, we recognize the administrative difficulties this may entail and support the proposed amendment.

Thank you for the opportunity to provide testimony on this bill.