



EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

December 22, 2008

The Honorable Calvin Say, Speaker
House of Representative
Twenty-Fourth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear Speaker Say:

Subject: Act 158, SLH 2008 - Relating to the Hybrid Plan Communications Campaign

Pursuant to the provisions in Act 158, sections 124.1, I am attaching the Employees' Retirement System's report on its Hybrid Plan communications campaign. You may also electronically view the report at <http://hawaii.gov/budget/LegReports/> pursuant to Act 231, Session Laws of Hawaii 2001.

If you have any questions on this matter, please call Mr. David Shimabukuro, ERS Administrator, at 586-1700.

Sincerely,

/s/

LINDA LINGLE

Enclosure



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HONOLULU

December 22, 2008

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GOVERNOR

The Honorable Colleen Hanabusa, President
Senate
Twenty-Fourth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear President Hanabusa:

Subject: Act 158, SLH 2008 - Relating to the Hybrid Plan Communications Campaign

Pursuant to the provisions in Act 158, sections 124.1, I am attaching the Employees' Retirement System's report on its Hybrid Plan communications campaign. You may also electronically view the report at <http://hawaii.gov/budget/LegReports/> pursuant to Act 231, Session Laws of Hawaii 2001.

If you have any questions on this matter, please call Mr. David Shimabukuro, ERS' Administrator, at 586-1700.

Sincerely,

/s/

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Enclosure

**EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII**

HYBRID PLAN COMMUNICATIONS CAMPAIGN

The following is a status report on the Employees' Retirement System's Hybrid Plan upgrade communications campaign as required by Section 124.1, Act 158, Session Laws of Hawaii 2008:

(1) The use of funds and services rendered by the contracted consultant, the cost of those services, and the extent of the spending to-date:

Response: The ERS is in the process of procuring a consultant and a contract is anticipated for execution in January 2009. As a result, spending has not occurred for this service. However, procurement notices in national publications to hire a consultant have cost \$8,774.

The allowability and taxability of qualified plan transfers was clarified in August 2008. The resolution of this issue is important as it needed to be a requirement in the Request for Proposals to ensure that the consultant understands and communicates the taxability of the different qualified retirement plans that can be used to upgrade a member's Noncontributory Plan service to Hybrid Plan service.

(2) The total number of consultations provided, the number of members served by counseling, and the extent of the marketing campaign:

Response: The ERS has not conducted any consultations or counseling efforts. After the consultant is hired, the ERS and consultant will develop a timeline to conduct the communications campaign, election, and payment for the Hybrid Plan upgrade effort.

(3) The current number of hybrid contributions and the predicted increase in hybrid contributions from service upgrades as a result of the campaign:

Response: For the fiscal year ended June 30, 2008, the ERS collected \$104,545,481 in Hybrid Plan contributions from eligible members.

It is impossible to predict the amount of monies that would be received from eligible members who plan to upgrade their Noncontributory Plan service to Hybrid Plan service. The two largest variables in estimating this number are: (1) determining the number of employees who will convert their service and (2) determining the number of years the employees will convert. The ERS is unable to determine or predict the outcome of these variables. There may be many who would like to make the upgrade purchase, but many may not have the

necessary funds to do so. With the severe downturn in the stock market the past few months, many members who were planning to upgrade their service may no longer have the funds they were planning to use for the Hybrid membership service upgrade. Even if all those who were planning to upgrade their service still elect to upgrade their service, they may now upgrade less service than previously planned.

The ERS anticipates that most of these 24,440 eligible Hybrid Plan members as of September 2008 will upgrade a portion of their Noncontributory Plan service. Based on information obtained from its Actuary, the average member's annual salary for teachers and general employees were \$63,927 and \$53,341, respectively. The cost of the upgrade will be based on the eligible ERS member's base salary (excluding overtime and other related compensation) six months before the notice of publication approving this upgrade effort multiplied by an actuarial factor based on the member's actual age in full years as of the last day of the 6th calendar month preceding the date of notice. There are separate actuarial tables for teachers and general employees. The average cost to upgrade one year of Noncontributory Plan service to Hybrid Plan service for eligible teachers and general employee members would be about \$3,600 and \$2,650, respectively. If all 24,440 eligible members upgrade at least one year of Noncontributory Plan service to Hybrid Plan service, then the ERS would receive approximately \$71.8 million in contributions. If all eligible members upgrade all of their Noncontributory Plan service to Hybrid Plan service, then approximately \$910.3 million would be collected.

(4) The estimated future cost and use of funds for completing the communications campaign:

The ERS has not held a communications campaign, and will not conduct one until the ERS Board of Trustees approves this effort and a consultant is hired. One of the changes that the ERS anticipates during this effort as opposed to the previous Hybrid Plan election effort that occurred in 2005 and 2006 is that there will be more one-to-one counseling. In the previous election effort, 169 group sessions were held statewide with over 20,000 attendees. Unfortunately, only 26,900 of the 58,000 eligible ERS members switched to the Hybrid Plan. Many did not attend a session. Although the ERS held 169 group informational sessions, sent out 58,000 individualized Hybrid Plan booklets, had a special website and video, established a call center, sent posters to employers, coordinated more than 22 payroll messages statewide, etc., many members sought information after the election deadline. Since many of the ERS' members live over 25% of their lifetime as a retiree, this upgrade effort and decision (whether and how much to upgrade) will be critical to making a good retirement decision. As such, the ERS is planning to hold one-to-one meetings with as many eligible ERS members as possible.

(5) **The problems encountered by the employees' retirement system, if any, in carrying out the communications campaign and suggested improvements:**

Not applicable as the ERS has not yet conducted the communications campaign.