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# HOUSE CONCURRENT RESOLUTION

REQUESTING THE AUDITOR TO CONDUCT A MANAGEMENT AND FINANCIAL  
AUDIT OF THE EMPLOYEES' RETIREMENT SYSTEM.

1           WHEREAS, pursuant to Act 179, Session Laws of Hawaii 2004,  
2 Class H service was established within the Employees' Retirement  
3 System through the Hybrid Plan for public employees within the  
4 State; and

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6           WHEREAS, eligible employees under the Hybrid Plan included:

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8           (1) All new general employees, teachers, state and county  
9 department heads and deputies, sewer workers, adult  
10 corrections officers, water safety officers, emergency  
11 medical technicians, and visa employees hired on or  
12 after July 1, 2006;  
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14           (2) Members in service on February 28, 2006, who elected  
15 by March 31, 2006, to transfer to the Hybrid Plan;  
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17           (3) Members hired in March through June of 2006, who  
18 elected within thirty days to transfer to the Hybrid  
19 Plan;  
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21           (4) Vested Contributory Plan (Class A) members who return  
22 to service after June 30, 2006, and who elect within  
23 thirty days to transfer to the Hybrid Plan; and  
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25           (5) Nonvested Class A and all Class C members who return  
26 to service after June 30, 2006; and  
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28           WHEREAS, the Hybrid Plan specified the following employee  
29 contribution amounts based upon an employee's position:

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31           (1) Six per cent for general employees and teachers; and  
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(2) 9.75 per cent for sewer workers, water safety officers, and emergency medical technicians; and

WHEREAS, general employees and teachers who are age sixty-two or older with at least five years of credited service or age fifty-five with at least thirty years of credited service are eligible for normal retirement benefits under the Hybrid Plan; and

WHEREAS, sewer workers, water safety officers, and emergency medical technicians who are age sixty-two with at least five years of credited service or any age with at least twenty-five years of credited service in their specific occupation, of which the last five years must be in that same capacity, are eligible for normal retirement benefits under the Hybrid Plan; and

WHEREAS, the annual service retirement allowance for Class H members is two per cent of the member's average final compensation multiplied by the number of years of Class H service; and

WHEREAS, at the time of enactment of the Hybrid Plan, the Employees' Retirement System indicated that the option to convert Noncontributory Plan service to Hybrid Plan service was contingent upon a ruling by the Internal Revenue Service on the issue; and

WHEREAS, the Employees' Retirement System requested a private letter ruling from the Internal Revenue Service to address specific tax issues that must be resolved prior to allowing the conversion of service credit; and

WHEREAS, the conversion of Noncontributory Plan service from the 1.25 per cent to two per cent benefit formula under the Hybrid Plan would be permissible under a favorable ruling by the Internal Revenue Service; and

WHEREAS, a favorable ruling by the Internal Revenue Service would also:

(1) Allow members in service on June 30, 2006, who transfer to the Hybrid Plan to convert all or a



1 portion of their Class C service by paying the full  
2 actuarial cost for the service to be converted;

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4 (2) Provide that the member's cost to convert Class C  
5 service to the Hybrid Plan based on the member's age  
6 and monthly base pay on June 30, 2006, and the years  
7 of Class C service to be converted;

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9 (3) Allow employer pick-up provisions to defer federal  
10 income taxes to apply to payments made by payroll  
11 deduction; and

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13 (4) Prohibit members who return to service after June 30,  
14 2006, from having the option to convert their Class C  
15 service; and

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17 WHEREAS, subsequently, in 2006, Congress passed the Pension  
18 Protection Act of 2006, P.L. 109-280, which, among other things,  
19 allows participants to purchase and convert service credit under  
20 governmental pension plans; and

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22 WHEREAS, this law negates the necessity of obtaining a  
23 ruling from the Internal Revenue Service on the issue of the  
24 conversion of service credit by permitting Class H members to  
25 purchase and convert service credit from the Noncontributory  
26 Plan into Hybrid Plan service credit; and

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28 WHEREAS, however, the Employees' Retirement System has  
29 indicated that due to its current heavy workload and difficulty  
30 in securing employees in temporary positions, as would be  
31 necessary for undertaking the purchase and conversion of service  
32 credit under the Hybrid Plan, implementation of a system to  
33 allow Class H members to purchase and convert service credit  
34 will not be feasible until the year 2010; and

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36 WHEREAS, the Legislature is concerned that there may be  
37 current Class H members who are or will be eligible to retire  
38 and who wish to retire prior to the implementation of the system  
39 for purchase and conversion of service credit, thereby  
40 prohibiting them from benefiting from the new federal law; now,  
41 therefore,

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43 BE IT RESOLVED by the House of Representatives of the  
44 Twenty-fourth Legislature of the State of Hawaii, Regular  
2007-2255 HCR SMA.doc



1 Session of 2007, the Senate concurring, that the Auditor is  
2 requested to conduct a management and financial audit of the  
3 Employees' Retirement System to ascertain its current workload  
4 and staffing needs to determine methods and means by which the  
5 Employees' Retirement System may begin implementation of the  
6 purchase and conversion of service credit under the Hybrid Plan;  
7 and

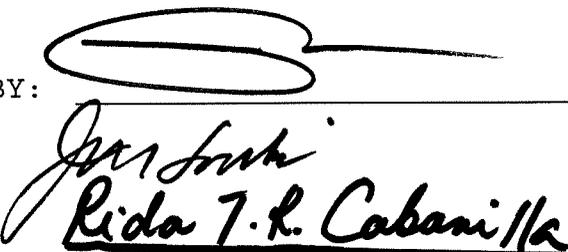
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9 BE IT FURTHER RESOLVED that the Auditor examine and  
10 evaluate the current workload issues, including the need for,  
11 cost of, and pros and cons relating to the use of permanent  
12 versus temporary positions to assist the Employees' Retirement  
13 System in completing its three major ongoing projects, including  
14 the implementation of the purchase and conversion of service  
15 credit under the Hybrid Plan; and

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17 BE IT FURTHER RESOLVED that the Auditor develop  
18 recommendations for methods and means by which the Employees'  
19 Retirement System can implement the purchase and conversion of  
20 service credit under the Hybrid Plan in an expedited manner; and

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22 BE IT FURTHER RESOLVED that the Auditor is requested to  
23 submit a report of its findings and recommendations to the  
24 Legislature no later than twenty days prior to the convening of  
25 the Regular Session of 2008; and

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27 BE IT FURTHER RESOLVED that certified copies of this  
28 Concurrent Resolution be transmitted to the Auditor, the Chair  
29 of the Board of Trustees of the Employees' Retirement System,  
30 and the Administrator of the Employees' Retirement System.

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33 OFFERED BY:

  
Rida T.R. Cabanilla  
  
MAR 14 2007

