

MAR 14 2007

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## SENATE 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

5  
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;  
20  
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  
24  
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  
32  
33 (2) 9.75 per cent for sewer workers, water safety  
34 officers, and emergency medical technicians; and  
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1           WHEREAS, general employees and teachers who are age sixty-  
2 two or older with at least five years of credited service or age  
3 fifty-five with at least thirty years of credited service are  
4 eligible for normal retirement benefits under the Hybrid Plan;  
5 and

6  
7           WHEREAS, sewer workers, water safety officers, and  
8 emergency medical technicians who are age sixty-two with at  
9 least five years of credited service or any age with at least  
10 twenty-five years of credited service in their specific  
11 occupation, of which the last five years must be in that same  
12 capacity, are eligible for normal retirement benefits under the  
13 Hybrid Plan; and

14  
15           WHEREAS, the annual service retirement allowance for Class  
16 H members is two per cent of the member's average final  
17 compensation multiplied by the number of years of Class H  
18 service; and

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

25  
26           WHEREAS, the Employees' Retirement System requested a  
27 private letter ruling from the Internal Revenue Service to  
28 address specific tax issues that must be resolved prior to  
29 allowing the conversion of service credit; and

30  
31           WHEREAS, the conversion of Noncontributory Plan service  
32 from the 1.25 per cent to two per cent benefit formula under the  
33 Hybrid Plan would be permissible under a favorable ruling by the  
34 Internal Revenue Service; and

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

- 38  
39           (1) Allow members in service on June 30, 2006, who  
40 transfer to the Hybrid Plan to convert all or a  
41 portion of their Class C service by paying the full  
42 actuarial cost for the service to be converted;  
43



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

5  
6 (3) Allow employer pick-up provisions to defer federal  
7 income taxes to apply to payments made by payroll  
8 deduction; and

9  
10 (4) Prohibit members who return to service after June 30,  
11 2006, from having the option to convert their Class C  
12 service; and

13  
14 WHEREAS, subsequently, in 2006, Congress passed the Pension  
15 Protection Act of 2006, P.L. 109-280, which, among other things,  
16 allows participants to purchase and convert service credit under  
17 governmental pension plans; and

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

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

32  
33 WHEREAS, the Legislature is concerned that there may be  
34 current Class H members who are or will be eligible to retire  
35 and who wish to retire prior to the implementation of the system  
36 for purchase and conversion of service credit, thereby  
37 prohibiting them from benefiting from the new federal law; now,  
38 therefore,

39  
40 BE IT RESOLVED by the Senate of the Twenty-fourth  
41 Legislature of the State of Hawaii, Regular Session of 2007,  
42 that the Auditor is requested to conduct a management and  
43 financial audit of the Employees' Retirement System to ascertain  
44 its current workload and staffing needs to determine methods and



1 means by which the Employees' Retirement System may begin  
2 implementation of the purchase and conversion of service credit  
3 under the Hybrid Plan; and

4  
5 BE IT FURTHER RESOLVED that the Auditor examine and  
6 evaluate the current workload issues, including the need for,  
7 cost of, and pros and cons relating to the use of permanent  
8 versus temporary positions to assist the Employees' Retirement  
9 System in completing its three major ongoing projects, including  
10 the implementation of the purchase and conversion of service  
11 credit under the Hybrid Plan; and

12  
13 BE IT FURTHER RESOLVED that the Auditor develop  
14 recommendations for methods and means by which the Employees'  
15 Retirement System can implement the purchase and conversion of  
16 service credit under the Hybrid Plan in an expedited manner; and

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18 BE IT FURTHER RESOLVED that the Auditor is requested to  
19 submit a report of its findings and recommendations to this body  
20 no later than twenty days prior to the convening of the Regular  
21 Session of 2008; and

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23 BE IT FURTHER RESOLVED that certified copies of this  
24 Resolution be transmitted to the Auditor, the Chair of the Board  
25 of Trustees of the Employees' Retirement System, and the  
26 Administrator of the Employees' Retirement System.

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OFFERED BY: Don Murr

