
A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The purpose of this Act is to amend and clarify
2 provisions of chapter 88, Hawaii Revised Statutes, to maintain
3 the status of the employees' retirement system as a tax-
4 qualified plan under section 401(a) of the Internal Revenue
5 Code.

6 SECTION 2. Section 88-59, Hawaii Revised Statutes, is
7 amended by amending subsection (b) to read as follows:

8 "(b) After the filing of the statement, the board shall
9 verify the service claimed and determine the service credit
10 allowable. Verified prior service shall be credited. Verified
11 membership service shall be paid for by the member in any one of
12 the following methods, at the member's option:

13 (1) If deductions commence or the lump sum payment is made
14 prior to July 1, 2020:

15 (A) By deductions from the member's compensation
16 pursuant to section 414(h)(2) of the Internal
17 Revenue Code of 1986, as amended, under the



1 employer pick up plan under section 88-46. An
2 irrevocable payroll authorization filed by the
3 member for a period not to exceed sixty months
4 shall remain in effect until the completion of
5 the payroll payments or termination of
6 employment, whichever is earlier. The member may
7 elect to have:

8 (i) Deductions from the member's compensation of
9 twice the contribution rate provided for in
10 section 88-45 over a period equal to the
11 period for which membership service credit
12 is allowable not to exceed sixty months; or

13 (ii) Deductions from the member's compensation of
14 one and one-half times the contribution rate
15 provided for in section 88-45 over a period
16 equal to twice the period for which
17 membership service credit is allowable not
18 to exceed sixty months; or

19 (B) By lump sum payment of contributions computed at
20 the contribution rate provided for in section
21 88-45 applied to the member's monthly rate of



1 compensation at the time of payment multiplied by
2 the number of months for which membership service
3 credit is allowable; provided that after July 1,
4 1982, this method shall not be available to any
5 new member with fewer than five years of
6 membership service exclusive of any previous
7 service acquired under subparagraph (A).

8 (2) If the [~~deductions commence or the lump sum~~] payment
9 is made after June 30, 2020 [+

10 ~~(A) By deductions from the member's compensation~~
11 ~~pursuant to section 414(h)(2) of the Internal~~
12 ~~Revenue Code of 1986, as amended, under the~~
13 ~~employer pick up plan under section 88-46. An~~
14 ~~irrevocable payroll authorization filed by the~~
15 ~~member for a period not to exceed sixty months~~
16 ~~shall remain in effect until the completion of~~
17 ~~the payroll payments or termination of~~
18 ~~employment, whichever is earlier. The amount of~~
19 ~~the deductions shall be sufficient to amortize~~
20 ~~the actuarial cost of the membership service to~~
21 ~~be credited, together with interest at the~~



1 ~~investment yield rate assumption in effect as of~~
2 ~~the date the claim for service credit is made, in~~
3 ~~level twice monthly payments over the period~~
4 ~~specified in the irrevocable authorization.~~
5 ~~Service credited shall be proportional on the~~
6 ~~basis of whole months. For example, if a member~~
7 ~~elects to acquire twenty four months of service~~
8 ~~over sixty months and terminates employment after~~
9 ~~thirty and one half months of deductions, the~~
10 ~~member will acquire twelve months of membership~~
11 ~~service credit, or~~

12 ~~(B)~~ By], by lump sum payment equal to the actuarial
13 cost of the membership service to be credited;
14 provided that the member has at least five years
15 of membership exclusive of any previous service
16 acquired under paragraph (1) [~~or subparagraph~~
17 ~~(A)~~].

18 The actuarial cost of the membership service to be credited
19 shall be determined by the actuary for the system based on
20 the age of the member in full years as of the date the
21 claim for service credit is made, the investment yield rate



1 assumption in effect as of the date the claim for service
2 credit is made, the retirement age eligibility requirements
3 and retirement allowance provisions applicable to the
4 member, and other actuarial assumptions adopted by the
5 board in effect as of the date the claim for service credit
6 is made.

7 The deductions from compensation or lump sum payment shall
8 be paid to the system and shall be credited to the member's
9 individual account and become part of the member's accumulated
10 contributions."

11 SECTION 3. Section 88-324, Hawaii Revised Statutes, is
12 amended by amending subsections (b) and (c) to read as follows:

13 "(b) Except as otherwise provided in subsection (c), (d),
14 or (e), verified membership service shall be paid for in any one
15 of the following methods, at the member's option:

16 (1) If deductions commence or the lump sum payment is made
17 prior to July 1, 2020:

18 (A) By deductions from the member's compensation
19 pursuant to section 414(h)(2) of the Internal
20 Revenue Code of 1986, as amended, under the
21 employer pick up plan under section 88-326. An



1 irrevocable payroll authorization filed by the
2 member for a period not to exceed sixty months
3 shall remain in effect until the completion of
4 the payroll payments or termination of
5 employment, whichever is earlier. The amount of
6 service credit that may be acquired pursuant to
7 this method shall not exceed the period over
8 which the payroll payments are made. The member
9 may elect to have:

10 (i) Deductions from the member's compensation of
11 twice the contribution rate provided for in
12 section 88-325 over a period equal to the
13 period for which membership service credit
14 is allowable not to exceed sixty months; or

15 (ii) Deductions from the member's compensation of
16 one and one-half times the contribution rate
17 provided for in section 88-325 over a period
18 equal to twice the period for which
19 membership service credit is allowable, not
20 to exceed sixty months; or



1 (B) By lump sum payment of contributions computed at
2 the contribution rate provided for in section
3 88-325 applied to the member's monthly rate of
4 compensation at the time of payment multiplied by
5 the number of months for which membership service
6 credit is allowable.

7 (2) If the [~~deductions commence or the lump sum~~] payment
8 is made after June 30, 2020 [+

9 ~~(A) By deductions from the member's compensation~~
10 ~~pursuant to section 414(h) (2) of the Internal~~
11 ~~Revenue Code of 1986, as amended, under the~~
12 ~~employer pick up plan under section 88-326. An~~
13 ~~irrevocable payroll authorization filed by the~~
14 ~~member for a period not to exceed sixty months~~
15 ~~shall remain in effect until the completion of~~
16 ~~the payroll payments or termination of~~
17 ~~employment, whichever is earlier. The amount of~~
18 ~~the deductions shall be sufficient to amortize~~
19 ~~the actuarial cost of the membership service to~~
20 ~~be credited, together with interest at the~~
21 ~~investment yield rate assumption in effect as of~~



1 ~~the date the claim for service credit is made, in~~
 2 ~~level twice monthly payments over the period~~
 3 ~~specified in the irrevocable authorization.~~
 4 ~~Service credited shall be proportional on the~~
 5 ~~basis of whole months. For example, if a member~~
 6 ~~elects to acquire twenty four months of service~~
 7 ~~over sixty months and terminates employment after~~
 8 ~~thirty and one half months of deductions, the~~
 9 ~~member will acquire twelve months of membership~~
 10 ~~service credit, or~~

11 ~~(B)~~ By, by lump sum payment equal to the actuarial
 12 cost of the membership service to be credited;
 13 provided that the member has at least five years
 14 of membership exclusive of any previous service
 15 acquired under paragraph (1) [~~or subparagraph~~
 16 ~~(A)~~].

17 The actuarial cost of the membership service to be credited
 18 shall be determined by the actuary for the system based on
 19 the age of the member in full years as of the date the
 20 claim for service credit is made, the investment yield rate
 21 assumption in effect as of the date the claim for service



1 credit is made, the retirement age eligibility requirements
2 and retirement allowance provisions applicable to the
3 member, and other actuarial assumptions adopted by the
4 board in effect as of the date the claim for service is
5 made.

6 The deductions from compensation or lump sum payment shall
7 be paid to the system and shall be credited to the member's
8 individual account and become part of the member's accumulated
9 contributions.

10 Class H membership service credit in addition to any other
11 service credited to the member shall be allowed for the period
12 for which the deductions from compensation or lump sum payment
13 have been made in accordance with this subsection; provided that
14 payment shall commence within one year after the system notifies
15 the member that the service claimed has been verified and that
16 service credit is allowable; provided further that, for a member
17 who becomes a member after June 30, 2016: membership service
18 credit for prior service or for service rendered prior to the
19 member's last becoming a member shall be claimed within one year
20 after the member enters service; membership service credit for
21 military service pursuant to section 88-132.5 shall be claimed



1 within one year after the member meets the requirements of
2 section 88-132.5(a) or (b); and any other membership service
3 credit acquired pursuant to this section shall be claimed within
4 one year after the member becomes eligible to receive the
5 service credit upon satisfaction of the requirements of this
6 section.

7 (c) Verified membership service for which a former class A
8 or class B member in service on June 30, 2006, was eligible as
9 of June 30, 2006, but failed to claim by the date established by
10 the board pursuant to section 88-322(b), shall be paid for in
11 any one of the following methods, at the member's option:

12 (1) If deductions commence or the lump sum payment is made
13 prior to July 1, 2020:

14 (A) By deductions from the member's compensation
15 pursuant to section 414(h)(2) of the Internal
16 Revenue Code of 1986, as amended, under the
17 employer pick up plan under section 88-326. An
18 irrevocable payroll authorization filed by the
19 member for a period not to exceed sixty months
20 shall remain in effect until the completion of
21 the payroll payments or termination of



1 employment, whichever is earlier. The amount of
2 service credit that may be acquired pursuant to
3 this method shall not exceed the period over
4 which the payroll payments are made. The member
5 may elect to have:

6 (i) Deductions from the member's compensation of
7 twice the contribution rate applicable to
8 the member under section 88-45 as of
9 June 30, 2006, over a period equal to the
10 period for which membership service credit
11 is allowable, not to exceed sixty months; or

12 (ii) Deductions from the member's compensation of
13 one and one-half times the contribution rate
14 applicable to the member under section 88-45
15 as of June 30, 2006, over a period equal to
16 twice the period for which membership
17 service credit is allowable, not to exceed
18 sixty months; or

19 (B) By lump sum payment of contributions computed at
20 the contribution rate applicable to the member
21 under section 88-45 as of June 30, 2006, applied



1 to the member's monthly rate of compensation at
2 the time of payment, multiplied by the number of
3 months for which membership service credit is
4 allowable.

5 (2) If the [~~deductions commence or the lump sum~~] payment
6 is made after June 30, 2020 [+

7 ~~(A) By deductions from the member's compensation~~
8 ~~pursuant to section 414(h)(2) of the Internal~~
9 ~~Revenue Code of 1986, as amended, under the~~
10 ~~employer pick up plan under section 88-46. An~~
11 ~~irrevocable payroll authorization filed by the~~
12 ~~member for a period not to exceed sixty months~~
13 ~~shall remain in effect until the completion of~~
14 ~~the payroll payments or termination of~~
15 ~~employment, whichever is earlier. The amount of~~
16 ~~the deductions shall be sufficient to amortize~~
17 ~~the actuarial cost of the membership service to~~
18 ~~be credited, together with interest at the~~
19 ~~investment yield rate assumption in effect as of~~
20 ~~the date the claim for service credit is made, in~~
21 ~~level twice monthly payments over the period~~



1 ~~specified in the irrevocable authorization.~~
2 ~~Service credited shall be proportional on the~~
3 ~~basis of whole months. For example, if a member~~
4 ~~elects to acquire twenty four months over sixty~~
5 ~~months and terminates employment after thirty and~~
6 ~~one half months of deductions, the member will~~
7 ~~acquire twelve months of membership service~~
8 ~~credit; or~~

9 ~~(B)~~ By, by lump sum payment equal to the actuarial
10 cost of the membership service to be credited;
11 provided that the member has at least five years
12 of membership exclusive of any previous service
13 acquired under paragraph (1) [~~or subparagraph~~
14 ~~(A)~~].

15 The actuarial cost of the membership service to be credited
16 shall be determined by the actuary for the system based on
17 the age of the member in full years as of the date the
18 claim for service credit is made, the investment yield rate
19 assumption in effect as of the date the claim for service
20 credit is made, the retirement age eligibility requirements
21 and retirement allowance provisions applicable to the



1 member, and other actuarial assumptions adopted by the
2 board in effect as of the date the claim for service is
3 made.

4 The deductions from compensation or lump sum payment shall be
5 paid to the system and shall be credited to the member's
6 individual account and become part of the member's accumulated
7 contributions.

8 Class H membership service credit in addition to any other
9 service credited to the member shall be allowed for the period
10 for which the deductions from compensation or lump sum payment
11 have been made in accordance with this subsection; provided that
12 payment shall commence within one year after the system notifies
13 the member that the service claimed has been verified and that
14 service credit is allowable; and provided further that, for a
15 member who becomes a member after June 30, 2016: membership
16 service credit for prior service or for service rendered prior
17 to the member's last becoming a member shall be claimed within
18 one year after the member enters service; membership service
19 credit for military service pursuant to section 88-132.5 shall
20 be claimed within one year after the member meets the
21 requirements of section 88-132.5(a); and any other membership



1 service credit acquired pursuant to this section shall be
2 claimed within one year after the member becomes eligible to
3 receive the service credit upon satisfaction of the requirements
4 of this section."

5 SECTION 4. Statutory material to be repealed is bracketed
6 and stricken. New statutory material is underscored.

7 SECTION 5. This Act shall take effect on January 1, 2050.



Report Title:

Employees' Retirement System; Acquisition of Retirement Service Credit

Description:

Amends and clarifies the acquisition of service credit provisions to maintain the tax-qualified status of the Employees' Retirement System in compliance with the federal Internal Revenue Code. (SB2767 HD1)

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

