THE SENATE
THIRTY-FIRST LEGISLATURE, 2021
STATE OF HAWAII

S.C.R. NO. 211

MAR 12 2021

SENATE CONCURRENT RESOLUTION

URGING THE EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII TO ESTABLISH AND OFFER TO ITS QUALIFIED GOVERNMENTAL PENSION PLAN PARTICIPANTS, A QUALIFIED ROTH CONTRIBUTION PROGRAM.

WHEREAS, saving money to cover one's living costs after retirement is one of the most important financial goals an individual will need to achieve; and

WHEREAS, even if an individual qualifies to receive Social Security retirement benefits, the Social Security Administration states that the benefits only compensate about forty-two percent of an average worker's income after retirement; and

WHEREAS, the State has a vested interest in ensuring that its populace has adequate retirement savings for economic and healthcare purposes, as people without sufficient retirement savings may need to rely on governmental assistance after retirement and impact the State budget; and

WHEREAS, the average life expectancy in Hawaii, which increased from 76.8 years in 1980 to 81.3 years in 2018, is the highest among all states in the United States; and

WHEREAS, the significant increase in the life expectancy of its populace makes retirement planning even more critical in Hawaii; and

WHEREAS, employers in Hawaii, including the State government, provide its employees with retirement savings plans as part of their benefits package and uses them as recruitment incentives; and

WHEREAS, the State of Hawaii, offers its employees:

(1) A tax-qualified governmental pension plan that is governed by section 401(a) of the Internal Revenue Code (IRC) and administered by the Employees' Retirement System of the State of Hawaii (ERS);

(2) The Island $avings Plan, which is a voluntary deferred compensation plan that is governed by section 457(b) of the IRC and administered by Prudential Retirement Insurance and Annuity Company;

(3) A voluntary tax sheltered annuity plan for the employees of the Department of Education and University of Hawaii that is governed by section 403(b) of the IRC and administered by National Benefit Services, LLC; and

(4) A deferred compensation retirement plan for part-time, temporary, and seasonal/casual employees that is governed by section 457 of the IRC and administered by Life Insurance Company of the Southwest, a member of National Life Group; and

WHEREAS, all retirement plans currently offered to State employees are traditional retirement plans that deduct contributions from the employee's pre-tax income, thereby reducing the employee's taxable income and federal and state tax burden for that current year, however, all future distributions, including capital gains in the account, are treated as taxable income at the time of withdrawal; and

WHEREAS, section 402A of the IRC allows employer retirement plans governed under sections 401(a), 403(b), and 457(b) of the IRC to have a qualified Roth contribution program, under which plan participants may designate some or all of their retirement contributions as designated Roth contributions and have them placed into their designated Roth accounts; and

WHEREAS, unlike traditional pre-tax retirement contributions, an employee's designated Roth contribution is included in the employee's gross income in the year the contribution is made, however, qualified distributions from the designated Roth account (including capital gains in the account) are not treated as taxable income at the time of withdrawal; and

WHEREAS, to provide a qualified Roth contribution program, the employer must amend its retirement plan to include the Roth designation feature, establish a new separate account for each participant making designated Roth contributions, and keep the designated Roth contributions completely separate from the employee's previous and current traditional pre-tax elective contributions, which can be done by any means as long as the employer can separately and accurately track a participant's designated Roth contributions along with corresponding gains and losses; and

WHEREAS, employees participating in a retirement plan with a Roth designation feature may contribute to both the designated Roth and traditional accounts in the same year in any proportion the employee chooses, as long as the combined contribution amount is under the statutory limit for the applicable tax year; and

WHEREAS, the states of Alaska, Connecticut, Idaho, Iowa, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New Jersey, New Hampshire, New York, and Ohio, and municipalities including Philadelphia, Phoenix, Mesa, and Salem offer a qualified Roth contribution program to its employees; and

WHEREAS, the option of a designated Roth account will benefit many plan participants, especially the employees whose retirement distributions will not occur until decades later because the tax savings for the distributions and capital gains accumulated in their designated Roth accounts over the years (due to compounding of interests) excluded from taxable income may surpass the amount of tax saved by making pre-tax contributions into traditional accounts; and

WHEREAS, a broader selection of retirement plans will also entice more employees to contribute to their retirement accounts and induce other public and private sector employers to offer their employees the same option; now, therefore,

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BE IT RESOLVED by the Senate of the Thirty-first Legislature of the State of Hawaii, Regular Session of 2021, the House of Representatives concurring, that the ERS is urged to establish and offer to its qualified governmental pension plan participants, a qualified Roth contribution program by July 1, 2022; and

BE IT FURTHER RESOLVED that a certified copy of this Concurrent Resolution be transmitted to the Executive Director of the Employees' Retirement System.

OFFERED BY: ____________________