

MAR 12 2021

SENATE 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.

1 WHEREAS, saving money to cover one's living costs after
2 retirement is one of the most important financial goals an
3 individual will need to achieve; and
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5 WHEREAS, even if an individual qualifies to receive Social
6 Security retirement benefits, the Social Security Administration
7 states that the benefits only compensate about forty-two percent
8 of an average worker's income after retirement; and
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10 WHEREAS, the State has a vested interest in ensuring that
11 its populace has adequate retirement savings for economic and
12 healthcare purposes, as people without sufficient retirement
13 savings may need to rely on governmental assistance after
14 retirement and impact the State budget; and
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16 WHEREAS, the average life expectancy in Hawaii, which
17 increased from 76.8 years in 1980 to 81.3 years in 2018, is the
18 highest among all states in the United States; and
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20 WHEREAS, the significant increase in the life expectancy of
21 its populace makes retirement planning even more critical in
22 Hawaii; and
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24 WHEREAS, employers in Hawaii, including the State
25 government, provide its employees with retirement savings plans
26 as part of their benefits package and uses them as recruitment
27 incentives; and
28

29 WHEREAS, the State of Hawaii, offers its employees:

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



- 1
- 2 (2) The Island Savings Plan, which is a voluntary deferred
- 3 compensation plan that is governed by section 457(b)
- 4 of the IRC and administered by Prudential Retirement
- 5 Insurance and Annuity Company;
- 6
- 7 (3) A voluntary tax sheltered annuity plan for the
- 8 employees of the Department of Education and
- 9 University of Hawaii that is governed by section
- 10 403(b) of the IRC and administered by National Benefit
- 11 Services, LLC; and
- 12
- 13 (4) A deferred compensation retirement plan for part-time,
- 14 temporary, and seasonal/casual employees that is
- 15 governed by section 457 of the IRC and administered by
- 16 Life Insurance Company of the Southwest, a member of
- 17 National Life Group; and
- 18

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

26

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

33

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

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41 WHEREAS, to provide a qualified Roth contribution program,
42 the employer must amend its retirement plan to include the Roth



1 designation feature, establish a new separate account for each
2 participant making designated Roth contributions, and keep the
3 designated Roth contributions completely separate from the
4 employee's previous and current traditional pre-tax elective
5 contributions, which can be done by any means as long as the
6 employer can separately and accurately track a participant's
7 designated Roth contributions along with corresponding gains and
8 losses; and
9

10 WHEREAS, employees participating in a retirement plan with
11 a Roth designation feature may contribute to both the designated
12 Roth and traditional accounts in the same year in any proportion
13 the employee chooses, as long as the combined contribution
14 amount is under the statutory limit for the applicable tax year;
15 and
16

17 WHEREAS, the states of Alaska, Connecticut, Idaho, Iowa,
18 Maryland, Massachusetts, Michigan, Minnesota, Nevada, New
19 Jersey, New Hampshire, New York, and Ohio, and municipalities
20 including Philadelphia, Phoenix, Mesa, and Salem offer a
21 qualified Roth contribution program to its employees; and
22

23 WHEREAS, the option of a designated Roth account will
24 benefit many plan participants, especially the employees whose
25 retirement distributions will not occur until decades later
26 because the tax savings for the distributions and capital gains
27 accumulated in their designated Roth accounts over the years
28 (due to compounding of interests) excluded from taxable income
29 may surpass the amount of tax saved by making pre-tax
30 contributions into traditional accounts; and
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32 WHEREAS, a broader selection of retirement plans will also
33 entice more employees to contribute to their retirement accounts
34 and induce other public and private sector employers to offer
35 their employees the same option; now, therefore,
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37 BE IT RESOLVED by the Senate of the Thirty-first
38 Legislature of the State of Hawaii, Regular Session of 2021,
39 that the ERS is urged to establish and offer to its qualified
40 governmental pension plan participants, a qualified Roth
41 contribution program by July 1, 2022; and
42



S.R. NO. 174

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

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OFFERED BY: 

