THE SENATE
THIRTY-FIRST LEGISLATURE, 2021
STATE OF HAWAII

S.R. NO. 174 S.D. 1

SENATE RESOLUTION

URGING THE DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT AND DEPARTMENT OF EDUCATION TO ESTABLISH AND OFFER A QUALIFIED ROTH CONTRIBUTION PROGRAM TO THEIR RETIREMENT PLAN PARTICIPANTS.

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 offers its employees:

(1) A tax-qualified defined benefit pension plan that requires mandatory employer contributions by the

State, is governed by section 401(a) of the Internal Revenue Code (IRC), and administered by the Employees' Retirement System (ERS);

(2) The Island $avings Plan, which is a voluntary deferred compensation plan offered by the Department of Human Resources Development (DHRD) 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 employees of the Department of Education (DOE) 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 offered by the DHRD 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, and therefore reduces 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(k), 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, 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, the states of Alaska, Connecticut, Idaho, Iowa, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New Hampshire, New Jersey, New York, and Ohio, and municipalities including Philadelphia, Phoenix, Mesa, and Salem offer a qualified Roth contribution program to its employees; and

WHEREAS, under section 401(a) of the IRC, the ERS cannot maintain its tax-qualified status if it offers "elective deferrals" of compensation to its participants in the manner contemplated by a Roth contribution plan; and

WHEREAS, in contrast, the DHRD and DOE currently offers a deferred compensation program for State employees separate from the retirement plans offered by the ERS, and can offer an alternative, qualified Roth contribution program for elective deferral of compensation by State workers; and

WHEREAS, a broader selection of retirement plans will 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,

BE IT RESOLVED by the Senate of the Thirty-first Legislature of the State of Hawaii, Regular Session of 2021, that the Department of Human Resources Development and Department of Education are urged to establish and offer to their retirement plan participants, a qualified Roth contribution program by July 1, 2022; and

BE IT FURTHER RESOLVED that certified copies of this Resolution be transmitted to the Governor, Director of Human Resources Development, Chairperson of the Board of Education, and Superintendent of Education.