
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 legislature finds that employees who became
2 members of the employees' retirement system before July 1, 2012,
3 commonly referred to as "Tier 1 members", are required to have a
4 minimum of five years of credited service to be eligible for
5 vested benefit status, which, among other things, permits a
6 member to receive a retirement allowance upon service
7 retirement. By contrast, employees who become members after
8 June 30, 2012, commonly referred to as "Tier 2 members", are
9 required to have a minimum of ten years of credited service to
10 be eligible for vested benefit status.

11 Although the two-tier member structure has assisted the
12 employees' retirement system in its efforts to achieve full
13 funding of its actuarial accrued liability, actuaries have
14 determined that reducing the minimum number of years of credited
15 service Tier 2 members must have to be eligible for vested
16 benefit status from ten years to five years to match Tier 1
17 members would increase the projected full funding period only by

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1 an estimated four additional months and would not require an
2 increase in contribution rates.

3 The legislature also finds that reducing the minimum number
4 of years of credited service Tier 2 members must have to be
5 eligible for vested benefit status from ten years to five years
6 would help State and county employers with the recruitment and
7 retention of qualified employees. Reducing employee turnover
8 and retaining employees on the job longer may also help to
9 reduce employer costs. The legislature further finds that these
10 benefits outweigh the impacts on the employees' retirement
11 systems' unfunded liability and projected full funding period.

12 Notwithstanding section 88-99, Hawaii Revised Statutes, the
13 purpose of this Act is to reduce the minimum number of years of
14 credited service qualified Tier 2 members must have to be
15 eligible for vested benefit status for service retirement
16 allowance purposes from ten years to five years.

17 SECTION 2. Section 88-62, Hawaii Revised Statutes, is
18 amended by amending subsection (b) to read as follows:

19 "(b) [~~For~~] Notwithstanding section 88-99, for members who
20 become members after June 30, 2012:

21 (1) If a former member who has fewer than ten years of
22 credited service and who has been out of service for a

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1 period of four full calendar years or more after the
2 year in which the former member left service, or if a
3 former member who withdrew the former member's
4 accumulated contributions returns to service, the
5 former member shall become a member in the same manner
6 and under the same conditions as anyone first entering
7 service; however, the former member may obtain
8 membership service credit in the manner provided by
9 applicable law for credited service that was forfeited
10 by the member upon termination of the member's
11 previous membership. If the member did not withdraw
12 the former member's accumulated contributions prior to
13 the former member's return to service, the accumulated
14 contributions shall be returned to the member as part
15 of the process of enrolling the member in the system
16 if the member's accumulated contributions are \$1,000
17 or less at the time of distribution. If the
18 accumulated contributions for the service the member
19 had when the member previously terminated employment
20 are greater than \$1,000 and the member does not make
21 written application, prior to or contemporaneously
22 with the member's return to service, for return of the

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1 accumulated contributions, the member may not withdraw
2 the member's accumulated contributions, except as
3 provided by section 88-96 or 88-341, until the member
4 retires or attains age sixty-two. The member shall
5 not be entitled to service credit by reason of the
6 system's retention of the member's accumulated
7 contributions for the service the member had when the
8 member previously terminated employment. To be
9 eligible for any benefit, the member shall fulfill the
10 membership service requirements for the benefit
11 through membership service after again becoming a
12 member, in addition to meeting any other eligibility
13 requirement established for the benefit; provided that
14 the membership service requirement shall be exclusive
15 of any former service acquired in accordance with
16 section 88-59 or any other section in part II, VII, or
17 VIII;

18 (2) If a former member with fewer than ten years of
19 credited service and who did not withdraw the former
20 member's accumulated contributions returns to service
21 within four full calendar years after the year in
22 which the former member left service, the former

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1 member shall again become a member in the same manner
2 and under the same conditions as anyone first entering
3 service, except that the member shall be credited with
4 service credit for the service the member had when the
5 member terminated employment:

6 (A) If the member returns to service as a class A or
7 class B member, the member's new and previous
8 accumulated contributions shall be combined; or

9 (B) If the member returns to service as a class H
10 member, section 88-321(b) shall apply; [and]

11 (3) If a former member [~~with ten or more years of credited~~
12 ~~service who did not withdraw the former member's~~
13 ~~contributions] who has vested benefit status as
14 provided in section 88-96(b) returns to service, the
15 former member's status shall be in accordance with the
16 provisions described in section 88-97[-]; and~~

17 (4) If a former member who has fewer than five years of
18 credited service and who has been out of service for a
19 period of four full calendar years or more after the
20 year in which the former member left service, or if a
21 former member withdrew the former member's accumulated
22 contributions returns to service and remains in

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1 service as of July 1, 2025 or returns to service after
2 June 30, 2025, the former member shall become a member
3 in the same manner and under the same conditions as
4 anyone first entering service; provided that the
5 former member may obtain membership service credit in
6 the manner provided by applicable law for credited
7 service that was forfeited by the member upon
8 termination of the member's previous membership. If
9 the member did not withdraw the former member's
10 accumulated contributions prior to the former member's
11 return to service, the accumulated contributions shall
12 be returned to the member as part of the process of
13 enrolling the member in the system if the member's
14 accumulated contributions are \$1,000 or less at the
15 time of distribution. If the accumulated
16 contributions for the service the member had when the
17 member previously terminated employment are greater
18 than \$1,000 and the member does not make written
19 application, prior to or contemporaneously with the
20 member's return to service, for return of the
21 accumulated contributions, the member may not withdraw
22 the member's accumulated contributions, except as

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1 provided by section 88-96 or 88-341, until the member
2 retires or attains age sixty-two. The member shall
3 not be entitled to service credit by reason of the
4 system's retention of the member's accumulated
5 contributions for the service the member had when the
6 member previously terminated employment. To be
7 eligible for any benefit, the member shall fulfill the
8 membership service requirements for the benefit
9 through membership service after again becoming a
10 member, in addition to meeting any other eligibility
11 requirement established for the benefit; provided that
12 the membership service requirement shall be exclusive
13 of any former service acquired in accordance with
14 section 88-59 or any other section in part II, VII, or
15 VIII; and

- 16 (5) If a former member who has fewer than five years of
17 credited service and who did not withdraw the former
18 member's accumulated contributions returns to service
19 and remains in service as of July 1, 2025 or returns
20 to service after June 30, 2025, and who returns to
21 service within four full calendar years after the year
22 in which the former member left service, the former

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1 member shall again become a member in the same manner
2 and under the same conditions as anyone first entering
3 service, except that the member shall be credited with
4 service credit for the service the member had when the
5 member terminated employment:

6 (A) If the member returns to service as a class A or
7 class B member, the member's new and previous
8 accumulated contributions shall be combined; or

9 (B) If the member returns to service as a class H
10 member, section 88-321(b) shall apply."

11 SECTION 3. Section 88-73, Hawaii Revised Statutes, is
12 amended as follows:

13 1. By amending subsections (a) and (b) to read:

14 "(a) [~~Any~~] Notwithstanding section 88-99, any member who:

15 (1) Became a member before July 1, 2012, and has at least
16 five years of credited service and has attained age
17 fifty-five;

18 (2) Became a member before July 1, 2012, and has at least
19 twenty-five years of credited service;

20 (3) Has at least ten years of credited service, which
21 includes service as a judge before July 1, 1999, an
22 elective officer, or a legislative officer;

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1 (4) Becomes a member after June 30, 2012, and has at least
2 ten years of credited service and has attained age
3 sixty; [~~or~~]

4 (5) Becomes a member after June 30, 2012, and has at least
5 twenty-five years of credited service and has attained
6 age fifty-five[~~7~~]; or

7 (6) Becomes a member after June 30, 2012, and who is in
8 service as of July 1, 2025, or who returns to service
9 or becomes a member after June 30, 2025, and has at
10 least five years of credited service and has attained
11 the age of sixty,

12 shall become eligible to receive a retirement allowance after
13 the member has terminated service.

14 (b) Any member who first earned credited service as a
15 judge after June 30, 1999, but before July 1, 2012, and who has
16 at least five years of credited service and has attained age
17 fifty-five or has at least twenty-five years of credited service
18 shall become eligible to receive a retirement allowance after
19 the member has terminated service. Any member who first earned
20 credited service as a judge after June 30, 2012, and has at
21 least ten years of credited service and has attained age sixty,
22 or has at least twenty-five years of credited service and has

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1 attained age fifty-five, shall be eligible to receive a
2 retirement allowance after the member has terminated service.
3 Any member who first earned credited service as a judge after
4 June 30, 2012, and who is in service as of July 1, 2025, or
5 thereafter, and has at least five years of credited service and
6 has attained age sixty, shall be eligible to receive a
7 retirement allowance after the member has terminated service."

8 2. By amending subsection (f) to read:

9 "(f) A member's right to the member's accrued retirement
10 benefit is nonforfeitable upon the attainment of normal
11 retirement age and the completion of the requisite years of
12 credited service.

13 For the purpose of this subsection:

14 "Normal retirement age" means age sixty-five.

15 "Requisite years of credited service" means five years for
16 class A and B members who became members before July 1, 2012_[7];
17 [~~and~~] ten years for class A and B members who became members
18 after June 30, 2012_[-]; and five years for class A and B members
19 who became members after June 30, 2012 and who are in service as
20 of July 1, 2025 or who returned to service or became a member
21 after June 30, 2025."

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1 SECTION 4: Section 88-96, Hawaii Revised Statutes, is
2 amended by amending subsections (a) and (b) to read as follows:
3 "(a) Any member who ceases to be an employee and who
4 became a member before July 1, 2012, and has fewer than five
5 years of credited service, excluding unused sick leave[7]; or
6 who becomes a member after June 30, 2012, and has fewer than ten
7 years of credited service, excluding unused sick leave[7]; or
8 who becomes a member after June 30, 2012, and who is in service
9 as of July 1, 2025 or who returns to service after June 30,
10 2025, and has fewer than five years of credited service,
11 excluding unused sick leave; or who becomes a member after June
12 30, 2025 and has fewer than five years of credited service,
13 excluding unused sick leave, shall, upon application to the
14 board, be paid all of the member's accumulated contributions and
15 the member's membership shall thereupon terminate and all
16 credited service shall be forfeited; provided that a member
17 shall not be paid the member's accumulated contributions:
18 (1) If the member becomes an employee again within fifteen
19 calendar days from the date the member ceased to be an
20 employee; or

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1 (2) If, at the time the application for return of
2 accumulated contributions is received by the board,
3 the member has become an employee again.
4 Regular interest shall be credited to the former employee's
5 account until the former employee's accumulated contributions
6 are returned to the former employee; provided that the former
7 employee's membership shall not continue after the fourth full
8 year following the calendar year in which the individual's
9 employment terminates. Upon termination of the former
10 employee's membership, the former employee's credited service
11 shall be forfeited and, if the former employee's accumulated
12 contributions are \$1,000 or less at the time of distribution,
13 the system shall return the former employee's contributions to
14 the former employee. If the former employee does not become an
15 employee again and if the former employee's accumulated
16 contributions have not been withdrawn by the former employee or
17 previously returned by the system to the former employee, the
18 system shall return the former employee's accumulated
19 contributions to the former employee as soon as possible after
20 the later of: (A) the former employee attaining age sixty-two;
21 or (B) the termination of the former employee's membership.

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1 (b) Any member who ceases to be an employee and who became
2 a member before July 1, 2012, and has more than five years of
3 credited service, excluding unused sick leave[7]; or who becomes
4 a member after June 30, 2012, and has more than ten years of
5 credited service, excluding unused sick leave[7]; or who becomes
6 a member after June 30, 2012, and who is in service as of July
7 1, 2025 or who returns to service after June 30, 2025, and has
8 more than five years of credited service, excluding unused sick
9 leave; or who becomes a member after June 30, 2025 and has more
10 than five years of credited service, excluding unused sick
11 leave, shall, upon application to the board, be paid all of the
12 member's accumulated contributions and thereupon the former
13 employee's membership shall terminate and all credited service
14 shall be forfeited; provided that a member shall not be paid the
15 member's accumulated contributions:

16 (1) If the member becomes an employee again within fifteen
17 calendar days from the date the member ceased to be an
18 employee; or

19 (2) If, at the time the application for return of
20 accumulated contributions is received by the board,
21 the member has become an employee again.

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1 If the contributions are not withdrawn by the former
2 employee within four calendar years following the calendar year
3 in which the former employee's employment terminates, the former
4 employee shall have established vested benefit status and shall
5 be eligible for the service retirement benefit in effect at the
6 time of the former employee's retirement, payable in accordance
7 with this chapter; provided that if the former employee
8 withdraws the former employee's accumulated contributions, the
9 former employee's vested benefit status shall terminate and all
10 credited service shall be forfeited."

11 SECTION 5. Section 88-331, Hawaii Revised Statutes, is
12 amended as follows:

13 1. By amending subsection (a) to read:

14 "(a) [A] Notwithstanding section 88-99, a class H member
15 who:

16 (1) Became a member before July 1, 2012, has at least five
17 years of credited service, and has attained age sixty-
18 two;

19 (2) Became a member before July 1, 2012, has at least
20 thirty years of credited service, and has attained the
21 age of fifty-five; [e]

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1 (3) Becomes a member after June 30, 2012, has at least ten
2 years of credited service, and has attained age sixty-
3 five; [~~or~~]
4 (4) Becomes a member after June 30, 2012, has at least
5 thirty years of credited service, and has attained age
6 sixty[~~7~~]; or
7 (5) Becomes a member after June 30, 2012, and who is in
8 service as of July 1, 2025, or who returns to service
9 or becomes a member after June 30, 2025, and has at
10 least five years of credited service and has attained
11 the age of sixty-five,
12 shall become eligible to receive a retirement allowance after
13 the member has terminated service."

14 2. By amending subsection (f) to read:

15 "(f) A member's right to the member's accrued retirement
16 benefit is nonforfeitable upon the attainment of normal
17 retirement age and the completion of the requisite years of
18 credited service.

19 For the purpose of this subsection:

20 "Normal retirement age" means age sixty-five.

21 "Requisite years of credited service" means five years for
22 class H members who became members before July 1, 2012 [~~7~~and];

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1 ten years for class H members who became members after June 30,
2 2012[-]; and five years for class H members who became members
3 after June 30, 2012, and who are in service as of July 1, 2025,
4 or who returned to service or became a member after June 30,
5 2025."

6 SECTION 6. Section 88-338, Hawaii Revised Statutes, is
7 amended by amending subsection (a) to read as follows:

8 "(a) Upon receipt by the system of proper proof of a class
9 H member's death occurring in service or while on authorized
10 leave without pay and if no pension is payable under section 88-
11 339, there shall be paid to the member's designated beneficiary
12 an ordinary death benefit as follows:

13 (1) The member's accumulated contributions shall be paid
14 to the member's designated beneficiary if:

15 (A) The member became a member before July 1, 2012,
16 and had less than five years of credited service
17 at the time of death; [~~or~~]

18 (B) The member became a member after June 30, 2012,
19 and had less than ten years of credited service
20 at the time of death; or

21 (C) The member became a member after June 30, 2012,
22 and was in service as of July 1, 2025, or who

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1 returned to service or became a member after June
2 30, 2025, and had less than five years of
3 credited service at the time of death;

4 (2) An amount equal to the member's hypothetical account
5 balance shall be paid to the member's designated
6 beneficiary if:

7 (A) The member became a member before July 1, 2012,
8 and had five or more years of credited service at
9 the time of death; ~~[or]~~

10 (B) The member became a member after June 30, 2012,
11 and had ten or more years of credited service at
12 the time of death; or

13 (C) The member became a member after June 30, 2012,
14 and was in service as of July 1, 2025, or who
15 returned to service or became a member after June
16 30, 2025, and had five or more years of credited
17 service at the time of death;

18 (3) If the member had ten or more years of credited
19 service at the time of death, the member's designated
20 beneficiary may elect to receive in lieu of any other
21 payment provided in this section, the allowance that
22 would have been payable as if the member had retired

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1 on the first day of a month following the member's
2 death, except for the month of December when
3 retirement on the first or last day of the month shall
4 be allowed. Benefits payable under this paragraph
5 shall be calculated under option 3 of section 88-83
6 and computed on the basis of section 88-332, unreduced
7 for age; or

8 (4) If the member was eligible for service retirement at
9 the time of death, the member's designated beneficiary
10 may elect to receive in lieu of any other payment
11 provided in this section, the allowance that would
12 have been payable as if the member had retired on the
13 first day of a month following the member's death,
14 except for the month of December when retirement on
15 the first or last day of the month shall be allowed.
16 Benefits payable under this paragraph shall be
17 calculated under option 2 of section 88-83 and
18 computed on the basis of section 88-332."

19 SECTION 7. Section 88-341, Hawaii Revised Statutes, is
20 amended by amending subsections (a) and (b) to read as follows:

21 "(a) Any class H member who ceases to be an employee and
22 who became a member before July 1, 2012, and has fewer than five

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1 years of credited service, excluding unused sick leave[7]; or
2 who becomes a member after June 30, 2012, and has fewer than ten
3 years of credited service, excluding unused sick leave[7]; or
4 who becomes a member after June 30, 2012, and who is in service
5 as of July 1, 2025, or who returns to service or becomes a
6 member after June 30, 2025, and has fewer than five years of
7 credited service, excluding unused sick leave, shall, upon
8 application to the board, be paid all of the former employee's
9 accumulated contributions, and the former employee's membership
10 shall thereupon terminate and all credited service shall be
11 forfeited; provided that an individual shall not be paid the
12 individual's accumulated contributions if either:

- 13 (1) The individual becomes an employee again within
14 fifteen calendar days from the date the individual
15 ceased to be an employee; or
16 (2) At the time the application for return of accumulated
17 contributions is received by the board, the individual
18 has become an employee again.

19 Regular interest shall be credited to the former employee's
20 account until the former employee's accumulated contributions
21 are withdrawn; provided that the former employee's membership
22 shall not continue after the fourth full year following the

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1 calendar year in which the individual's employment terminates.
2 If the former employee does not become an employee again and has
3 not withdrawn the former employee's accumulated contributions,
4 the system shall return the former employee's accumulated
5 contributions to the former employee as soon as possible after
6 the later of: (A) the former employee attaining age sixty-two;
7 or (B) the termination of the former employee's membership.
8 (b) Any class H member who ceases to be an employee and
9 who became a member before July 1, 2012, and has more than five
10 years of credited service, excluding unused sick leave[7]; or
11 who becomes a member after June 30, 2012, and has more than ten
12 years of credited service, excluding unused sick leave[7]; or
13 who becomes a member after June 30, 2012, and who is in service
14 as of July 1, 2025 or who returns to service or becomes a member
15 after June 30, 2025, and has more than five years of credited
16 service, excluding unused sick leave, shall, upon application to
17 the board, be paid an amount equal to the former employee's
18 hypothetical account balance and the former employee's
19 membership shall thereupon terminate and all credited service
20 shall be forfeited; provided that the individual shall not be
21 paid the individual's hypothetical account balance if either:

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1 (1) The individual becomes an employee again within
2 fifteen calendar days from the date the individual
3 ceased to be an employee; or

4 (2) At the time the application for payment of the
5 individual's hypothetical account balance is received
6 by the board, the individual has become an employee
7 again.

8 If the contributions are not withdrawn by the former
9 employee after the individual's employment terminates, the
10 former employee shall have vested benefit status and shall be
11 eligible for the service retirement benefit in effect at the
12 time of the former employee's retirement, payable in accordance
13 with this chapter."

14 SECTION 8. There is appropriated out of the general
15 revenues of the State of Hawaii the sum of \$9,800,000 or so much
16 thereof as may be necessary for fiscal year 2024-2025 for
17 investments of the employees' retirement system.

18 The sum appropriated shall be expended by the employees'
19 retirement system for the purposes of this Act.

20 SECTION 9. This Act does not affect the rights, duties,
21 and obligations that matured or were vested, or proceedings that
22 were begun, before its effective date, including but not limited

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1 to, any membership that was terminated, credited service that
2 was forfeited, retirement that was finalized, or benefits which
3 were paid.

4 SECTION 10. Statutory material to be repealed is bracketed
5 and stricken. New statutory material is underscored.

6 SECTION 11. This Act shall take effect upon its approval;
7 provided that section 8 shall take effect on July 1, 2024.

8

9

INTRODUCED BY: _____



10

BY REQUEST

JAN 22 2024

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Report Title:

ERS; Credited Service; Benefits

Description:

Reduces the minimum number of years of credited service qualified Tier 2 Employees' Retirement System members must have to be eligible for vested benefit status for service retirement allowance purposes from ten years to five years. Appropriates funds for investments of the ERS.

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

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JUSTIFICATION SHEET

DEPARTMENT: Governor

TITLE: A BILL FOR AN ACT RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

PURPOSE: To reduce the minimum number of years of credited service qualified Tier 2 Employees' Retirement System (ERS) members must have to be eligible for vested benefits status for service retirement allowance purposes from ten years to five years. To appropriate funds for investments of the ERS.

MEANS: Amend sections 88-62(b); 88-73(a), (b), and (f); 88-96(a) and (b); 88-331(a) and (f); 88-338(a); and 88-341(a) and (b), Hawaii Revised Statutes. Appropriate funds.

JUSTIFICATION: State and county governments in Hawaii are experiencing the tough challenges and difficult impacts of job vacancies. Public sector vacancies hamper government's ability to serve the public and impede economic growth.

The number of years to attain credited service to be eligible for vested benefit status for service retirement differs significantly between Tier 1 and Tier 2 ERS members. Reducing the number of years of credited service for qualified Tier 2 ERS members for vested benefits status to match that of Tier 1 ERS members would assist State and county employers in recruiting and retaining qualified employees. Reducing employee turnover and retaining employees on the job longer would also help to reduce employer costs, as well as attract individuals to public service.

Impact on the public: Attracting individuals to State and county positions, and recruiting and retaining State and county employees on the job longer would enhance public service and lessen the need

for public assistance as more individuals are employed.

Impact on the department and other agencies:
None.

GENERAL FUND: \$9,800,000.

OTHER FUNDS: None.

PPBS PROGRAM
DESIGNATION: BUF-141.

OTHER AFFECTED
AGENCIES: Department of Budget and Finance -
Employees' Retirement System.

EFFECTIVE DATE: Upon approval, except for Section 8, which
takes effect on July 1, 2024.