ACT 327

S.B. NO. 257

A Bill for an Act Relating to Employees' Retirement System.

Be It Enacted by the Legislature of the State of Hawaii:

SECTION 1. Act 339, Session Laws of Hawaii 1990, as amended by Act 98, Session Laws of Hawaii 1993, and Act 275, Session Laws of Hawaii 1994, is amended by amending section 5 to read as follows:

"SECTION 5. This Act shall take effect on July 1, 1990, and shall be repealed as of June 30, [1997;] <u>1999;</u> provided that section 88-11, Hawaii Revised Statutes, is reenacted in the form in which it read on the day before the approval of this Act; and provided further that the repeal and reenactment shall not affect entitlement to benefits accruing to any retirant, pensioner, or beneficiary pursuant to this Act prior to July 1, [1997.] 1999.''

SECTION 2. Section 88-107, Hawaii Revised Statutes, is amended to read as follows:

''**§88-107 Interest.** The board of trustees shall annually allocate the interest and other earnings of the system to the funds of the system, as follows:

(1) The annuity savings fund shall be credited with the amount of regular interest credited to members' accounts;
(2) The expense fund shall be credited with such sums as provided in section 88-116; and
(3) The remaining investment earnings, if any, shall be credited to the pension accumulation fund.

[The amounts to be contributed to the pension accumulation fund by the State and counties shall be reduced by any investment earnings in excess of the investment yield rate applied in actuarial valuations, except as otherwise provided. Any additional amount required to meet the investment yield rate for the preceding year until fiscal year 2000 shall be paid by the State and counties, and shall be credited to the pension accumulation fund.]

Beginning with actual investment earnings in fiscal year 1995 in excess of the investment yield rate, to address outstanding unfunded pension obligations, ten per cent of such excess earnings shall be deposited in the pension accumulation fund; remaining excess earnings shall be applied to the amounts to be contributed under section 88-123. [In each succeeding fiscal year, another ten per cent, cumulatively up to one hundred per cent, of any such excess earnings shall be similarly allocated and deposited in the pension accumulation fund.

Following each five-year actuarial review as provided in section 88-105, the legislature shall evaluate the allocation and distribution of investment earnings in excess of the investment yield rate, and make such adjustments as appropriate. In the absence of affirmation by resolution, investment earnings in excess of the investment yield rate shall be applied to the contributions under section 88-123.] In fiscal year 1996, twenty per cent of the actual investment earnings in excess of the investment yield rate shall be deposited in the pension accumulation fund; remaining excess earnings shall be applied to the amount contributed under section 88-123. Beginning in fiscal year 1997, one hundred per cent of the investment earnings shall be deposited in the pension accumulation fund.''

SECTION 3. Section 88-122, Hawaii Revised Statutes, is amended to read as follows:

''**§88-122 Determination of employer normal cost and accrued liability contributions.** (a) Based on regular interest and such mortality and other tables as are adopted by the board of trustees, the actuary engaged by the board, on the basis of successive annual actuarial valuations, shall determine the employer's normal cost and accrued liability contributions for each fiscal year beginning July 1 separately for the following two groups of employees:

(1) Police officers, firefighters, and corrections officers; and
(2) All other employees.

(b) The actuarial valuations made for years ending June 30, 1994, to June 30, 2000, shall be based on an eight per cent investment yield rate, assumed salary increases of four per cent, and tables and factors adopted by the board or legislature for actuarial valuations of the system, subject to recommendations made by the actuary appointed under section 88-30.

(c) With respect to each of the two groups of employees in subsection (a), the normal cost for each year after [June 30, 1976,] June 30, 1994, shall be the percentage of the aggregate annual compensation of employees as of March 31 of the [preceding] valuation year [which, if contributed over each employee's prospective period of service and added to the employee's prospective contributions, will be sufficient to provide for the payment of all future benefits after subtracting the sum of the unfunded accrued liability as of the beginning of the year and the assets of the pension accumulation fund as of the end of the preceding year.] as determined by the actuary using the entry age normal cost funding method. On each June 30 the board shall determine the allocation of the assets of the pension accumulation fund between the two groups of employees in subsection (a); provided that the assets of the pension accumulation fund as of June 30, 1976, shall be allocated between the two groups in the same proportion as the aggregate annual compensation of each group as of March 31, 1976.

(d) [The total unfunded accrued liability as of July 1, 1987, shall be fixed at $470,000,000, and shall be allocated as follows: $61,000,000 to police officers, firefighters, and corrections officers, and $409,000,000 to all other employees. With respect to each of the two groups of employees in subsection (a), the accrued liability contribution for each year after June 30, 1988, shall be the level annual payment required to liquidate such unfunded accrued liability over the period of twenty-eight years beginning July 1, 1988.] Commencing with the 1995 fiscal year and each subsequent fiscal year, the actuary shall determine the total unfunded accrued liability using the entry age normal cost funding method separately for each of the two groups of employees in subsection (a). The accrued liability contribution for each of the two groups of employees shall be the annual payment required to liquidate the unfunded accrued liability over a period of twenty-one years beginning July 1, 1995. Any increase or decrease in the total unfunded accrued liability resulting from legislative changes in the benefit provisions of the employees' retirement system shall be liquidated over a period of time to be determined by the actuary."

SECTION 4. Section 88-123, Hawaii Revised Statutes, is amended to read as follows:

"**§88-123 Amount of annual contributions by the State and counties.** The contribution payable in each year to the pension accumulation fund by the State and by each county, respectively, shall be determined by allocating the sum of the normal cost and the accrued liability contribution for (1) police officers, firefighters, and corrections officers, the latter after the actual transfer of all county jails pursuant to executive order of the governor, and (2) all other employees in the same proportion as the aggregate annual compensation of each group employed by the State and by each county, respectively, as of March 31 of the valuation year [preceding the appropriation of said contribution]."

SECTION 5. Statutory material to be repealed is bracketed. New statutory material is underscored.

SECTION 6. This Act shall take effect upon its approval.

(Approved June 30, 1997.)