

ACT 181

S.B. NO. 2873

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

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

SECTION 1. Section 88-105, Hawaii Revised Statutes, is amended to read as follows:

“§88-105 Actuarial investigations, valuations. (a) At least once in each five-year period, commencing with fiscal year ~~[1995,]~~ 1994-1995, the actuary shall make an actuarial investigation of the experience of the system and shall recommend to the board of trustees the adoption for actuarial valuation of the system of such mortality, service, and other tables as shall be deemed appropriate and necessary, and the actuary shall recommend to the legislature for its adoption the investment yield rate and annual salary increase assumption. ~~[The actuary shall assess the actual investment earnings during the five-year review period and recommend appropriate adjustments to the contributions under section 88-123 for the same period.]~~ The actuary shall further recommend the acceptable ~~[level of pension benefit obligation]~~ funded ratio for the system, taking into consideration the guaranties of ~~[Article]~~ article XVI, section 2[7] of the ~~[State Constitution,]~~ state constitution, section 88-107, and section 88-127.

(b) Commencing with fiscal year 2009-2010, the actuary shall recommend, based on the actuarial investigation, the appropriate adjustments to the contribution rates under section 88-122(e).

(c) On the basis of such tables and other factors as the board or legislature, as the case may be, shall adopt, and commencing with fiscal year 2005-2006 and the contribution rates of section 88-122(e), the actuary shall make an annual valuation of the assets and liabilities of the funds of the system.”

SECTION 2. 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 after June 30, 1999, shall be based on an eight per cent investment yield rate, assumed salary increases of four per cent, and tables, contribution rates, and factors adopted by the board or legislature for actuarial valuations of the system, subject to recommendations made by the actuary appointed under section 88-29.

(c) With respect to each of the two groups of employees in subsection (a), the normal cost for each year after June 30, 1994, shall be the percentage of the aggregate annual compensation of employees as of March 31 of the valuation 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) Commencing with ~~the 1995~~ fiscal year 1994-1995 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-nine years beginning July 1, 2000. 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.

(e) Commencing with fiscal year 2005-2006 and each subsequent fiscal year, the employer contributions for normal cost and accrued liability for each of the two groups of employees in subsection (a) shall be based on fifteen and three-fourths per cent of the member’s compensation for police officers, firefighters, and corrections officers and thirteen and three-fourths per cent of the member’s compensation for all other employees. The contribution rates shall amortize the total unfunded accrued liability of the entire plan over a period not to exceed thirty years. The contribution rates shall be subject to adjustment:

- (1) If the actual period required to amortize the unfunded accrued liability exceeds thirty years;
- (2) If the actual period required to amortize the unfunded accrued liability falls below the established benchmark funding period of twenty-five years; or
- (3) Based on the actuarial investigation conducted in accordance with section 88-105.”

SECTION 3. 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) ~~[pölice]~~ 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) ~~[aH]~~ 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. Commencing with fiscal year 2005-2006, the contribution payable in each year to the pension accumulation fund by the State and each county, respectively, shall be determined by multiplying the contribution rates in section 88-122(e) by the actual covered payroll in a given fiscal year for each of the two groups of employees in section 88-122(a).”

SECTION 4. Section 88-124, Hawaii Revised Statutes, is amended to read as follows:

“§88-124 State appropriations for system. Before October 2 in every year, the board of trustees shall certify to the governor the appropriation necessary to pay to the various funds of the system the amounts payable by the State under this part for the fiscal year, beginning July 1 of the year next following, and items of appropriation providing such amounts shall be included in the general appropriation bill when it is presented to the legislature for final passage.

Commencing with the 2006 calendar year and every subsequent calendar year, the board of trustees by October 2 in every calendar year, shall certify to the governor the actual amount owed by the State under this part for the just completed fiscal year ending June 30. The actual amount owed for the just completed fiscal year shall be compared against actual amounts paid in the fiscal year, and any excess contributions by the State shall be used to offset any amounts owed by the State in the next fiscal year beginning July 1. Any additional contributions owed by the State for the just completed fiscal year ending June 30 shall be payable beginning July 1 of the fiscal year next following and shall be included in the general appropriation bill when it is presented to the legislature for final passage.”

SECTION 5. Section 88-125, Hawaii Revised Statutes, is amended by amending subsection (c) to read as follows:

“(c) The amount payable by each department or agency of the State, or the office of Hawaiian affairs, covered by this section shall be determined at least quarterly by the department of budget and finance on the basis of the payroll of the employees of the department or agency, or trustees of the office of Hawaiian affairs, who are members of the system in the same manner the allocation of employer contributions is determined in section 88-123. The comptroller of the State, the office of Hawaiian affairs, or any department or agency having control of its own funds shall, upon information furnished by the department of budget and finance, issue a ~~[warrant]~~ check for the proper amount to the ~~[system,]~~ director of finance, charging the same to the appropriate fund. The ~~[system]~~ director of finance shall place all such sums to the credit of the State as part payment of the State’s contributions to the various funds of the system.”

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SECTION 6. Section 88-126, Hawaii Revised Statutes, is amended to read as follows:

“§88-126 Certification and payment of county contributions to system.

(a) The board of trustees shall certify annually to the councils of each county and to the director of finance of the State the amount due from each county on account of its employees who are members of the system. The council of each county shall include in its annual budget the amount certified to it by the board. The amount shall be paid by the county before October 1 and April 1 of each fiscal year.

(b) Commencing with fiscal year 2005-2006, each of the counties shall make contributions in accordance with section 88-123. In calendar year 2006 and every subsequent calendar year, the board of trustees by October 2, shall certify to the councils of each county and to the director of finance of the State the actual amount owed by each county under this part for the just completed fiscal year ending June 30. The actual amount owed for the just completed fiscal year shall be compared against actual amounts paid in the fiscal year, and any excess contributions by each of the counties shall be used to offset any amounts owed in the next fiscal year beginning July 1. Any additional contributions owed by each of the counties for the just completed fiscal year ending June 30 shall be payable by October 1 and April 1 of the fiscal year next following. The council of each county shall include in its annual budget the amount certified to it by the board.

(c) If the amount or any portion [thereof] of the amounts owed is not paid by the county before October 1 and April 1 of each fiscal year, the director of finance shall retain out of the [real property] transient accommodations tax money collected for the year a sum equal to the amount or portion thereof not so paid. All the moneys retained and collected by the director of finance shall be deposited in the appropriate fund or funds of the system. The amount of any deficiency in meeting the obligations shall be added to the amount due from the county for the succeeding year.”

SECTION 7. Section 88-127, Hawaii Revised Statutes, is amended to read as follows:

“§88-127 Guaranty. Regular interest charges payable, the creation and maintenance of reserves in the pension accumulation fund and the maintenance of annuity reserves and pension reserves as provided for the payment of all pensions, annuities, retirement allowances, refunds, and other benefits granted under this part, and all expenses in connection with the administration and operation of the system are made obligations of the State and of the respective counties. All income, interest, and dividends derived from deposits and investments authorized by this part shall be used for the payment of such obligations. After June 30, 1964, the income shall include capital gains or losses, whether realized or unrealized, in the value of the retirement system assets as taken from time to time thereafter by the board of trustees. ~~[Any amount derived therefrom, which, when combined with appropriation requirements as certified by the board under the provisions of this part, would exceed the amount required to provide for such obligations, may be used to reduce the appropriations otherwise required.]~~ It is hereby declared that any and all sums contributed or paid from whatever source to the system for the funds created by this part, and all funds of the system including any and all interest and earnings of the same, are and shall be held in trust by the board for the exclusive use and benefit of the system and for the members of the system and shall not be subject to appropriation for any other purpose whatsoever.”

SECTION 8. Act 212, Session Laws of Hawaii 1994, as amended by Act 216, Session Laws of Hawaii 2000, is amended by amending section 4 to read as follows:

“SECTION 4. The board of trustees of the employees’ retirement system shall make payments with respect to all eligible employees who retire pursuant to this Act.

The board shall determine [the]:

- (1) The amount equal to the actuarial present value of the difference between the allowances members receive after the receipt of service credit under this Act and the allowances members would have received without the two years of additional service credit~~[-The board shall also determine the]; and~~
- (2) The portion of the additional actuarial present value of benefits to be charged to the State and to each county, based on retirements during the early retirement incentive bonus period.

The State and counties shall make separate additional payments to the employees’ retirement system in the amounts required to liquidate the additional actuarial present value of benefits over a period of five years beginning July 1, 1997; provided that the State’s and counties’ separate payments under this Act [will] shall be recalculated so as to liquidate the outstanding balance of each employer’s additional actuarial present value of benefits as of June 30, 1997, over the period of time specified in section 88-122(d)[-], Hawaii Revised Statutes; provided further that the State’s and counties’ payments under this Act remaining as of June 30, 2005, shall be included in employer contributions for normal cost and accrued liability as specified in section 88-122(e), Hawaii Revised Statutes.’”

SECTION 9. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 10. This Act shall take effect on July 1, 2005.

(Approved July 7, 2004.)