

Honolulu, Hawaii

MAR 16 2006

RE: H.B. No. 2311
H.D. 1

Honorable Robert Bunda
President of the Senate
Twenty-Third State Legislature
Regular Session of 2006
State of Hawaii

Sir:

Your Committee on Labor, to which was referred H.B. No. 2311,
H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO THE EMPLOYEES' RETIREMENT
SYSTEM,"

begs leave to report as follows:

The purpose of this measure is to amend portions of the law
relating to the employees' retirement system (ERS) to enable the
ERS to maintain its tax-qualified status.

Specifically, this measure:

- (1) Excludes from membership in the hybrid plan, class A and
class B members of the ERS who received in-service
refunds of pension contributions made under section
414(h)(2) of the Internal Revenue Code of 1986, as
amended; and
- (2) Repeals section 88-46.5, Hawaii Revised Statutes, which
allowed members of the (ERS) to receive a one-time
withdrawal of the member's contributions to the ERS in
the event of economic hardship.

Testimony in support of this measure was submitted by the
Department of Budget and Finance, the ERS, and the Hawaii State
Teachers Association.

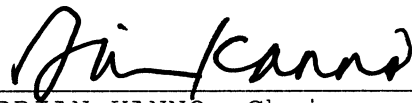


Your Committee finds that the tax-qualified retirement plan status of the ERS may be in jeopardy due to the existence of certain provisions of the law regarding the ERS. Section 414(h)(2) of the Internal Revenue Code of 1986, as amended, provides for favorable tax treatment for employee contributions "picked up" by the employer for the employee to a tax-qualified retirement plan established by a State or county. The tax-qualified status of the ERS is currently being compromised through provisions of the law that allow members to receive a refund of contributions made under section 414(h)(2) while the member is employed by the State or county or if the member received a refund while the member was employed by the State or county and the member is subsequently allowed to have additional contributions made on the member's behalf under section 414(h)(2).

Your Committee further finds that, under the current law, a member is allowed to make a one-time withdrawal of accumulated contributions to the ERS in the event of economic hardship while still employed by the State or county. This allowance also jeopardizes the ERS' tax-qualified status. Therefore, your Committee determines that in order to maintain the ERS' tax-qualified retirement plan status, the law must be amended to bring the ERS in compliance with the Internal Revenue Code.

As affirmed by the record of votes of the members of your Committee on Labor that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2311, H.D. 1, and recommends that it pass Second Reading and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Labor,

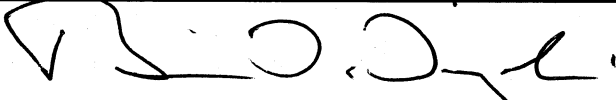


BRIAN KANNO, Chair



The Senate
Twenty-Third Legislature
State of Hawaii

Record of Votes of the
Committee on Labor
(Bills and Resolutions)

Measure:*	Committee Referral:	Date:
HB 2311 HDI	LBR, WAM	3-13-06
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____		
The Recommendation is to:		
<input checked="" type="checkbox"/> Pass, unamended (2312) <input type="checkbox"/> Pass, with amendments (2311) <input type="checkbox"/> Hold (2310) <input type="checkbox"/> Recommit (2313)		
Members	Ayes	Ayes(WR)
Nays	Excused	
KANNO, Brian (C)	✓	
IHARA, Jr., Les (VC)		✓
TANIGUCHI, Brian T.	✓	
SLOM, Sam	✓	
TOTAL	3	1
Recommendation:		
<input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted		
Chair's or Designee's Signature:		
		
Distribution:		
Original File with Committee Report	Yellow Clerk's Office	Pink Drafting Agency
		Goldenrod Committee File Copy

*Do not list more than one measure per Record of Votes.