

MAR 14 2007

SENATE RESOLUTION

REQUESTING THE AUDITOR TO CONDUCT A MANAGEMENT AND FINANCIAL
AUDIT OF THE EMPLOYEES' RETIREMENT SYSTEM.

1 WHEREAS, pursuant to Act 179, Session Laws of Hawaii 2004,
2 Class H service was established within the Employees' Retirement
3 System through the Hybrid Plan for public employees within the
4 State; and

5
6 WHEREAS, eligible employees under the Hybrid Plan included:

- 7
8 (1) All new general employees, teachers, state and county
9 department heads and deputies, sewer workers, adult
10 corrections officers, water safety officers, emergency
11 medical technicians, and visa employees hired on or
12 after July 1, 2006;
13
14 (2) Members in service on February 28, 2006, who elected
15 by March 31, 2006, to transfer to the Hybrid Plan;
16
17 (3) Members hired in March through June of 2006, who
18 elected within thirty days to transfer to the Hybrid
19 Plan;
20
21 (4) Vested Contributory Plan (Class A) members who return
22 to service after June 30, 2006, and who elect within
23 thirty days to transfer to the Hybrid Plan; and
24
25 (5) Nonvested Class A and all Class C members who return
26 to service after June 30, 2006; and
27

28 WHEREAS, the Hybrid Plan specified the following employee
29 contribution amounts based upon an employee's position:

- 30
31 (1) Six per cent for general employees and teachers; and
32
33 (2) 9.75 per cent for sewer workers, water safety
34 officers, and emergency medical technicians; and
35



1 WHEREAS, general employees and teachers who are age sixty-
2 two or older with at least five years of credited service or age
3 fifty-five with at least thirty years of credited service are
4 eligible for normal retirement benefits under the Hybrid Plan;
5 and

6
7 WHEREAS, sewer workers, water safety officers, and
8 emergency medical technicians who are age sixty-two with at
9 least five years of credited service or any age with at least
10 twenty-five years of credited service in their specific
11 occupation, of which the last five years must be in that same
12 capacity, are eligible for normal retirement benefits under the
13 Hybrid Plan; and

14
15 WHEREAS, the annual service retirement allowance for Class
16 H members is two per cent of the member's average final
17 compensation multiplied by the number of years of Class H
18 service; and

19
20 WHEREAS, at the time of enactment of the Hybrid Plan, the
21 Employees' Retirement System indicated that the option to
22 convert Noncontributory Plan service to Hybrid Plan service was
23 contingent upon a ruling by the Internal Revenue Service on the
24 issue; and

25
26 WHEREAS, the Employees' Retirement System requested a
27 private letter ruling from the Internal Revenue Service to
28 address specific tax issues that must be resolved prior to
29 allowing the conversion of service credit; and

30
31 WHEREAS, the conversion of Noncontributory Plan service
32 from the 1.25 per cent to two per cent benefit formula under the
33 Hybrid Plan would be permissible under a favorable ruling by the
34 Internal Revenue Service; and

35
36 WHEREAS, a favorable ruling by the Internal Revenue Service
37 would also:

- 38
39 (1) Allow members in service on June 30, 2006, who
40 transfer to the Hybrid Plan to convert all or a
41 portion of their Class C service by paying the full
42 actuarial cost for the service to be converted;
43



(2) Provide that the member's cost to convert Class C service to the Hybrid Plan based on the member's age and monthly base pay on June 30, 2006, and the years of Class C service to be converted;

(3) Allow employer pick-up provisions to defer federal income taxes to apply to payments made by payroll deduction; and

(4) Prohibit members who return to service after June 30, 2006, from having the option to convert their Class C service; and

WHEREAS, subsequently, in 2006, Congress passed the Pension Protection Act of 2006, P.L. 109-280, which, among other things, allows participants to purchase and convert service credit under governmental pension plans; and

WHEREAS, this law negates the necessity of obtaining a ruling from the Internal Revenue Service on the issue of the conversion of service credit by permitting Class H members to purchase and convert service credit from the Noncontributory Plan into Hybrid Plan service credit; and

WHEREAS, however, the Employees' Retirement System has indicated that due to its current heavy workload and difficulty in securing employees in temporary positions, as would be necessary for undertaking the purchase and conversion of service credit under the Hybrid Plan, implementation of a system to allow Class H members to purchase and convert service credit will not be feasible until the year 2010; and

WHEREAS, the Legislature is concerned that there may be current Class H members who are or will be eligible to retire and who wish to retire prior to the implementation of the system for purchase and conversion of service credit, thereby prohibiting them from benefiting from the new federal law; now, therefore,

BE IT RESOLVED by the Senate of the Twenty-fourth Legislature of the State of Hawaii, Regular Session of 2007, that the Auditor is requested to conduct a management and financial audit of the Employees' Retirement System to ascertain its current workload and staffing needs to determine methods and

2007-2255 SR SMA.doc



1 means by which the Employees' Retirement System may begin
2 implementation of the purchase and conversion of service credit
3 under the Hybrid Plan; and
4

5 BE IT FURTHER RESOLVED that the Auditor examine and
6 evaluate the current workload issues, including the need for,
7 cost of, and pros and cons relating to the use of permanent
8 versus temporary positions to assist the Employees' Retirement
9 System in completing its three major ongoing projects, including
10 the implementation of the purchase and conversion of service
11 credit under the Hybrid Plan; and
12

13 BE IT FURTHER RESOLVED that the Auditor develop
14 recommendations for methods and means by which the Employees'
15 Retirement System can implement the purchase and conversion of
16 service credit under the Hybrid Plan in an expedited manner; and
17

18 BE IT FURTHER RESOLVED that the Auditor is requested to
19 submit a report of its findings and recommendations to this body
20 no later than twenty days prior to the convening of the Regular
21 Session of 2008; and
22

23 BE IT FURTHER RESOLVED that certified copies of this
24 Resolution be transmitted to the Auditor, the Chair of the Board
25 of Trustees of the Employees' Retirement System, and the
26 Administrator of the Employees' Retirement System.
27
28
29

OFFERED BY: Don Murr

