
A BILL FOR AN ACT

RELATING TO THE STATE OF HAWAII DEFERRED COMPENSATION PLAN.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The State of Hawaii deferred compensation plan
2 ("plan") is a supplemental retirement plan that is authorized
3 under section 457 of the Internal Revenue Code of 1986, as
4 amended, and chapter 88E, Hawaii Revised Statutes. The plan is
5 available to employees of the State of Hawaii and participating
6 counties who are eligible to participate in the employees'
7 retirement system of the State of Hawaii. Under the plan,
8 participating employees can contribute a part of their
9 compensation on a tax-deferred basis. The plan allows employees
10 to supplement the retirement income they will receive from the
11 employees' retirement system and the United States Social
12 Security Administration. Currently, the counties of Hawaii,
13 Maui, and Kauai participate in the plan.

14 The State and the counties of Hawaii, Maui, and Kauai have
15 a combined workforce of approximately 57,103 who are eligible to
16 participate in the plan. However, of the number of eligible
17 employees, only approximately 35 per cent of active employees



1 participate in the plan. The plan's board of trustees ("board")
2 is concerned about the plan's low participation rate because
3 industry experts and financial consultants believe that relying
4 on retirement income from an employee's pension and social
5 security alone may not be sufficient to keep up with rising
6 inflation costs. Thus, to assist employees in taking advantage
7 of this important employee benefit and saving more for
8 retirement, the board proposes to automatically enroll all new
9 state and participating county employees into the plan. To
10 accomplish this, the bill proposes to deduct one per cent of
11 each employee's gross monthly wages and deposit it into a default
12 investment option selected by the board.

13 However, the bill also provides flexibility to those
14 employees who do not want to participate in the plan by allowing
15 these employees to opt out of the plan within 90 calendar days
16 after being automatically enrolled into the plan. Employees who
17 timely opt out of the plan shall receive their contributions
18 without a penalty, subject to changing market prices and the
19 payment of all applicable federal and state taxes.

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



1 "~~[f]~~ §88E-2 ~~[i]~~ State deferred compensation plan~~[r]~~;

2 automatic enrollment. (a) The State may establish a deferred

3 compensation plan in accordance with section 457 of the Internal

4 Revenue Code of ~~[1954,]~~ 1986, as amended, for the benefit of

5 employees to defer a portion of their compensation to a future

6 period of time. ~~[Participation in the plan shall be by written~~

7 ~~agreement between the employee and the State.]~~ The county may

8 enter into a formal agreement with the State to extend the plan

9 to employees of the county; provided that the agreement

10 designates one of the county's agencies to locally coordinate the

11 plan. ~~[Participation in the plan by a county employee shall be~~

12 ~~by written agreement between the employee and the county. An~~

13 ~~employee may authorize deductions to be made from the employees'~~

14 ~~wages for the purpose of participation in the plan.]~~

15 (b) Prior to July 1, 2009, participation in the plan shall

16 be voluntary. State employees may participate in the plan by

17 entering into a written agreement with the State and authorizing

18 deductions to be made from the employee's gross monthly wages and

19 contributed to the plan. County employees may participate in

20 the plan by entering into a written agreement with the county

21 and authorizing deductions to be made from the employees' gross

22 monthly wages and contributed to the plan.



1 (c) Effective on July 1, 2009, all state and participating
2 county employees who are hired on or after July 1, 2009, shall
3 be automatically enrolled into the plan. Participation in the
4 plan shall be mandatory, with a mandatory payroll deduction of
5 one per cent of each employee's gross monthly wages, which shall
6 be contributed to the plan; provided that:

7 (1) Participation in the plan shall be effective on the
8 date the employee is hired;

9 (2) The mandatory contributions shall be deposited into
10 the default investment option selected by the board;
11 and

12 (3) State and participating county employees who are
13 automatically enrolled into the plan on and after July
14 1, 2009, may, within ninety calendar days after being
15 automatically enrolled into the plan, opt out of
16 participating in the plan. Employees who timely opt
17 out of participating in the plan shall have all of
18 their mandatory contributions returned to them without
19 a penalty, subject to changing market prices, and the
20 payment of all applicable federal and state taxes."



1 SECTION 3. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

3 SECTION 4. This Act shall take effect on July 1, 2009.



Report Title:

State Deferred Compensation; Automatic Enrollment; Retirement

Description:

Encourages employees to save for retirement by automatically enrolling newly hired employees into the Deferred Compensation Plan (DCP) unless the new employee elects not to enroll.

(HB3144 HD1)

