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



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

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

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



1 " ~~[+]§88E-2[+]~~ **State deferred compensation plan**~~[+]~~;
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
11 the plan. ~~[Participation in the plan by a county employee shall~~
12 ~~be 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, state and county employees may
16 participate in the plan by entering into a written agreement
17 with the State or the respective county and authorizing
18 deductions to be made from the employee's gross monthly wages
19 and contributed to the plan.

20 (c) Effective on July 1, 2009, all state and participating
21 county employees who are hired on or after July 1, 2009, shall
22 be automatically enrolled into the plan. Participation in the



1 plan shall be automatic, with a payroll deduction of one per
2 cent of each employee's gross monthly wages, which shall be
3 contributed to the plan; provided that:

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

6 (2) The contributions shall be deposited into the default
7 investment option selected by the board;

8 (3) The board may increase the payroll deduction up to a
9 maximum of three per cent without complying with the
10 rulemaking requirements of chapter 91;

11 (4) Within sixty days of the date the employee is hired,
12 the plan administrator shall conduct an in-person
13 meeting with the employee to provide information about
14 the plan, including notice of the option to opt out of
15 participating in the plan pursuant to this subsection;

16 and

17 (5) State and participating county employees who are
18 automatically enrolled into the plan on and after
19 July 1, 2009, within ninety calendar days after being
20 automatically enrolled into the plan, may opt out of
21 participating in the plan. Employees who timely opt
22 out of participating in the plan shall have all of



1 their contributions returned to them without a
2 penalty, subject to changing market prices and the
3 payment of all applicable federal and state taxes."

4 SECTION 3. Statutory material to be repealed is bracketed
5 and stricken. New statutory material is underscored.

6 SECTION 4. This Act shall take effect on July 1, 2050.



Report Title:

State Deferred Compensation; Automatic Enrollment; Retirement

Description:

Automatically enrolls newly hired state and county employees into the deferred compensation plan. Allows the new employee to elect to opt out of participating in plan within 90 days of enrollment. (SB3066 SD1)

