

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT

ON
SENATE BILL NO. 3005, SENATE DRAFT 2

March 11, 2008

RELATING TO THE FEDERAL TAX QUALIFICATION OF THE EMPLOYEES'
RETIREMENT SYSTEM

Senate Bill No. 3005 amends statutes governing the Employees' Retirement System (ERS) to protect its tax qualified status. As recommended by the ERS, Senate Draft (SD) 2 restores language in Section 13 of this measure to preserve the one-time election prior to the effective date of the bill by current elected officials. This is consistent with tax law requirements.

The Department of Budget and Finance supports this administration measure.

Senate Bill 3005 eliminates optional membership in the ERS and includes 1) implementation of a one-time irrevocable election (at the time of initial election to office) to join the ERS by elective officers and 2) prohibition of the current practice by elective officers and judges to retire upon reaching the statutory cap on retirement benefits but delaying receipt of the benefits until a future separation date. Entrance into membership is currently at the option of elective officers and this optional membership jeopardizes the ERS' tax qualified status. The practice of retiring but delaying receipt of benefits until a future separation date while the judge or elective officer continues in office raises tax qualification issues on optional membership and in-service distribution of pre-tax contributions. The bill also sets forth conditions under which a retiree may return to service as an elective officer and continue to receive their pension.

Senate Bill 3005 protects the ERS' tax qualified status and ensures the continued favorable tax treatment of employee contributions made on pre-tax basis.

TESTIMONY BY DAVID SHIMABUKURO
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
SENATE BILL NO. 3005, S.D. 2

MARCH 11, 2008

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OF THE EMPLOYEES' RETIREMENT SYSTEM

Chair Sonson and Members of the Committee:

The Board of Trustees supports this Administration bill and recommends its approval. S.B. No. 3005, S.D. 2 amends various provisions of Chapter 88, Hawaii Revised Statutes to comply with federal income tax laws and to maintain the tax-qualified status of the Employees' Retirement System.

Thank you for the opportunity to testify on this Bill.