

JAN 25 2010

A BILL FOR AN ACT

RELATING TO THE PAYMENT OF EMPLOYEES' RETIREMENT SYSTEM
BENEFITS.

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

1 SECTION 1. Section 88-6, Hawaii Revised Statutes, is
2 amended by amending subsection (a) read as follows:

3 "(a) Notwithstanding any other provision of this chapter:

4 (1) All retirees and beneficiaries of the state
5 retirement system or county pension funds shall
6 be paid semimonthly; [~~and effective January 1,~~
7 ~~2003, all~~] provided that:

8 (A) All retirees and beneficiaries of the state
9 retirement system who either retire or
10 become beneficiaries after January 1, 2003,
11 shall be paid monthly; and

12 (B) Effective March 1, 2011, all retirees and
13 beneficiaries of the state retirement system
14 shall be paid monthly; and

15 (2) Any [~~retirant~~] retiree or beneficiary of the
16 state retirement system whose benefit commences
17 after June 30, 2001, shall designate a financial

Report Title:

Employees' Retirement System; Payment of Retirement Benefits

Description:

Provides for the payment of state retirement system benefits on a monthly basis by direct deposit to a financial institution account.

JUSTIFICATION SHEET

DEPARTMENT: Budget and Finance

TITLE: A BILL FOR AN ACT RELATING TO THE PAYMENT OF EMPLOYEES' RETIREMENT SYSTEM BENEFITS.

PURPOSE: To provide for payment of benefits from the Employees' Retirement System of the State of Hawaii (ERS) on a monthly basis by direct deposit to a financial institution account.

MEANS: Amend section 88-6, Hawaii Revised Statutes.

JUSTIFICATION: Prior to 2002, ERS retirement allowances and certain forms of death benefits were paid semimonthly. In 2002, legislation was enacted that authorized payment of new retirees and new benefit recipients on a monthly basis.

In 2001, legislation was enacted to require new retirees and new benefit recipients to designate a financial institution account into which the ERS is authorized to deposit their ERS benefits. Existing retirees and beneficiaries can voluntarily switch from receiving their ERS benefits by paper checks to receiving their ERS benefits by direct deposit into a financial institution account.

There are about 38,000 ERS retirees and beneficiaries receiving ERS benefits. Of this number, approximately 25,700 receive their benefits on a semimonthly basis and approximately 1,400 are still receiving paper checks.

Putting all ERS retirees and beneficiaries on a monthly payment basis and requiring all ERS retirees and beneficiaries to designate a financial institution account for direct deposit of benefits will reduce the annual number of benefit payment transactions by 40 percent. Reducing the number of benefit

payment transactions will streamline the administration of the ERS by decreasing the amount of staff time required to: process and review pension payments and deductions for employee organizations and federal tax withholding; print and reissue loss checks; remit semimonthly tax withholding payments to the Internal Revenue Service; and reconcile the ERS's bank account. Reducing the number of benefit payment transactions and eliminating paper checks will also result in cost savings from reductions in: bank processing fees; postage costs; stop payment fees; check printing costs; and check imaging costs.

Payment of benefits on a monthly basis will also increase ERS investment earnings.

Other retirement systems, including Social Security, are on a monthly payment cycle and pensions are processed at the end of each month.

It is anticipated that this measure will add approximately \$955,000 to the ERS's bottom line.

Impact on the public: None.

Impact on the department and other agencies:
The amendment will reduce costs and will streamline government operations.

GENERAL FUND: The benefits resulting from this measure will ultimately reduce the State and county employers' costs.

OTHER FUNDS: Savings of \$955,000 per fiscal year.

PPBS PROGRAM
DESIGNATION: BUF-141/Retirement.

OTHER AFFECTED
AGENCIES: Counties. The benefits resulting from this measure will ultimately reduce the State and county employers' costs.

EFFECTIVE DATE: January 1, 2011.