
A BILL FOR AN ACT

RELATING TO FEDERAL TAX QUALIFICATION REQUIREMENTS FOR THE
EMPLOYEES' RETIREMENT SYSTEM.

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

1 SECTION 1. The employees' retirement system of the State
2 of Hawaii is intended to be a tax-qualified retirement plan
3 under section 401(a) of the Internal Revenue Code. The Heroes
4 Earnings Assistance and Relief Tax Act of 2008 (HEART Act),
5 Public Law No. 110-245, imposes requirements on tax-qualified
6 retirement plans regarding benefits payable to the survivors of
7 members who die while performing qualified military service.

8 The legislature finds that although existing provisions of
9 chapter 88, Hawaii Revised Statutes, provide the benefits that
10 the HEART Act requires, chapter 88, Hawaii Revised Statutes,
11 must be amended to include the specific wording required by the
12 HEART Act to maintain the tax-qualified status of the employees'
13 retirement system. The legislature also finds that chapter 88,
14 Hawaii Revised Statutes, should be amended to address in greater
15 detail the requirement of section 401(a)(9) of the Internal
16 Revenue Code that qualified retirement benefits commence no
17 later than April 1 of the calendar year following the calendar



1 year in which an employees' retirement system member terminates
2 employment or attains age seventy and one-half, whichever is
3 later.

4 SECTION 2. Chapter 88, Hawaii Revised Statutes, is amended
5 by adding a new section to part II to be appropriately
6 designated and to read as follows:

7 "§88- Commencement of benefits on required beginning

8 date. (a) The purpose of this section is to provide for
9 distribution of benefits in accordance with a reasonable and
10 good faith interpretation of section 401(a)(9) of the Internal
11 Revenue Code. Section 401(a)(9) of the Internal Revenue Code
12 requires that the "entire interest" of a member be distributed
13 or that distribution of the member's benefits begin no later
14 than the member's "required beginning date".

15 (b) For the purposes of this section, "required beginning
16 date" means April 1 of the calendar year following the calendar
17 year in which a member terminates service or attains age seventy
18 and one-half, whichever is later.

19 (c) A member or former member's accumulated contributions
20 or hypothetical account balance, as defined in section 88-311,
21 shall be paid to the member or former member, or payment of the
22 benefits payable under part II, VII, or VIII of this chapter



1 shall commence, no later than the member's or former member's
2 required beginning date. The payment or payments shall be made
3 on, or beginning no later than, the member's or former member's
4 required beginning date even if the member or former member does
5 not apply for payment or file a retirement application.

6 (d) If, by a member's or former member's required
7 beginning date:

8 (1) The member or former member's accumulated
9 contributions or hypothetical account balance, as
10 defined in section 88-311, are not paid to the member
11 or former member; or

12 (2) Payment of the benefits payable under part II, VII, or
13 VIII of this chapter do not commence,
14 the system shall pay the service retirement benefits for which
15 the member or former member is eligible pursuant to part II,
16 VII, or VIII of this chapter, as applicable, retroactive to the
17 member's or former member's required beginning date with regular
18 interest.

19 (e) If the system does not receive a written election from
20 the member or former member under section 88-83, 88-283, or 88-
21 333, as applicable, prior to the later of the member's or former
22 member's required beginning date or sixty days following the



1 receipt by the member or former member of notice from the system
2 that the member or former member is required to make an
3 election, the following election shall be deemed to have been
4 made as of the member or former member's required beginning
5 date:

6 (1) If the member or former member is unmarried or has no
7 civil union partner or reciprocal beneficiary, the
8 member or former member shall be deemed to have
9 elected the maximum retirement allowance; or

10 (2) If the member or former member is married or has a
11 civil union partner or reciprocal beneficiary, the
12 member or former member shall be deemed to have
13 elected option 3 under section 88-83, or option A
14 under section 88-283, as applicable, and to have
15 designated the member's or former member's spouse,
16 civil union partner, or reciprocal beneficiary as the
17 member's or former member's beneficiary;

18 provided that if the system receives the written election after
19 the member's or former member's required beginning date, but
20 within sixty days following receipt by the member or former
21 member of notice from the system that the member or former
22 member is required to make the election, the written election



1 shall apply, and the member's or former member's retirement
2 benefit shall be recomputed, based on the written election,
3 retroactive to the member or former member's required beginning
4 date. The amount of any underpayment resulting from recomputing
5 the benefit shall bear regular interest. If recomputing the
6 benefit results in an overpayment, payments shall be adjusted so
7 that the actuarial equivalent of the benefit to which the member
8 or former member was correctly entitled shall be paid.

9 (f) If the system does not have current information about
10 the member's or former member's marital, civil union, or
11 reciprocal beneficiary status at the time of a deemed election,
12 the following presumptions shall apply:

13 (1) If the member or former member was married or had a
14 civil union partner or reciprocal beneficiary at the
15 time the member or former member last provided
16 information to the system about the member's or former
17 member's marital, civil union, or reciprocal
18 beneficiary status, it shall be presumed that the
19 member or former member is still married to the same
20 spouse, is in the same civil union partnership, or is
21 in the same reciprocal beneficiary relationship. If
22 the system does not have information as to the age of



1 the spouse, civil union partner, or reciprocal
2 beneficiary, the spouse, civil union partner, or
3 reciprocal beneficiary shall be presumed to be forty
4 years younger than the member or former member for
5 purposes of computing the member's or former member's
6 benefit; and

7 (2) If the member or former member was unmarried and did
8 not have a civil union partner or reciprocal
9 beneficiary at the time the member or former member
10 last provided information to the system about the
11 member or former member's marital status, it shall be
12 presumed that the member or former member is married
13 and that the spouse of the member or former member is
14 forty years younger than the member or former member.

15 (g) The presumptions in subsection (f) shall cease to
16 apply when the member or former member provides the system with
17 current information as to the member's or former member's
18 marital, civil union, or reciprocal beneficiary status and the
19 age of the member or former member's spouse, civil union
20 partner, or reciprocal beneficiary, if any, on the member's or
21 former member's required beginning date. The information shall
22 be provided in a form satisfactory to the system. At that time,



1 the member's or former member's retirement allowance shall be
2 recomputed, retroactive to the member's or former member's
3 required beginning date, based on the updated information;
4 provided that, except as provided in subsection (e), the member
5 or former member shall not be permitted to change the member's
6 or former member's retirement allowance option election or
7 beneficiary; provided further that the benefit being paid to any
8 member or former member who, on the member's or former member's
9 required beginning date, was unmarried and did not have a civil
10 union partner or reciprocal beneficiary, but who was deemed to
11 elect option 3 or option A with an assumed spouse, civil union
12 partner, or reciprocal beneficiary, shall be converted to the
13 maximum retirement allowance retroactive to the member's or
14 former member's required beginning date. The amount of any
15 underpayment resulting from recomputing the benefit shall bear
16 regular interest. If recomputing the benefit results in an
17 overpayment, payments shall be adjusted so that the actuarial
18 equivalent of the benefit to which the member or former member
19 was correctly entitled shall be paid.

20 (h) If the system cannot locate the member or former
21 member, the member's or former member's benefit shall be payable
22 only until the end of the member's or former member's life



1 expectancy, as determined at the member's or former member's
2 required beginning date. If the member or former member has not
3 by that time made a claim for benefits, the member or former
4 member shall be deemed to be deceased at that time. Interest
5 under subsection (d) shall cease on benefits presumed to be
6 abandoned property, pursuant to part I of chapter 523A, upon
7 payment of the property to the administrator under part I of
8 chapter 523A.

9 (i) Rules necessary for the purposes of this section shall
10 be adopted as provided in section 88-22.5."

11 SECTION 3. Section 88-22.5, Hawaii Revised Statutes, is
12 amended by amending subsection (a) to read as follows:

13 "(a) The system shall be administered in accordance with
14 the requirements of section 401(a)(1), (2), (8), (9), (25),
15 [~~and~~] (31), and (37) of the Internal Revenue Code of 1986, as
16 amended. Without limiting the generality of the foregoing and
17 notwithstanding any provision of chapter 88 to the contrary:

18 (1) Prior to the satisfaction of all liabilities with
19 respect to members and their beneficiaries, no part of
20 the corpus or income of the system shall be used for
21 or diverted to purposes other than for the exclusive
22 benefit of members and their beneficiaries. The



1 payment of reasonable expenses from the expense fund
2 for the administration of the system in accordance
3 with section 88-116 shall be deemed to be for the
4 benefit of members and their beneficiaries;

5 (2) Benefits forfeited by a member for any reason shall
6 not be applied to increase the benefits a member or
7 beneficiary would otherwise receive under the system;

8 (3) In accordance with section 88-_____ and rules adopted by
9 the board of trustees, the entire interest of a member
10 shall be distributed or distribution shall begin no
11 later than the member's "required beginning date", as
12 defined in section 401(a)(9) of the Internal Revenue
13 Code of 1986, as amended;

14 (4) In accordance with rules adopted by the board of
15 trustees, a member or beneficiary may elect, at the
16 time and in the manner prescribed by the board of
17 trustees, to have any portion of an "eligible rollover
18 distribution" paid in a "direct rollover" to an
19 "eligible retirement plan", as [~~such~~] those terms are
20 defined in section 401(a)(31) of the Internal Revenue
21 Code of 1986, as amended; [~~and~~]



1 (5) In the event of the termination of or complete
2 discontinuance of employer contributions to the
3 system, the rights of all members to benefits accrued
4 as of the date of [~~such~~] the termination or
5 discontinuance, to the extent then funded, shall be
6 nonforfeitable~~[.]~~; and

7 (6) In the case of a member who dies while performing
8 qualified military service, as defined in section
9 414(u) (5) of the Internal Revenue Code, the survivors
10 of the member shall be entitled to any additional
11 benefits (other than benefit accruals relating to the
12 period of qualified military service) provided under
13 this chapter had the member resumed and then
14 terminated employment on account of death; provided
15 that this paragraph shall not limit the rights to
16 which a member's designated beneficiary, spouse, civil
17 union partner, reciprocal beneficiary, or children are
18 otherwise entitled by this chapter; provided further
19 that the legislature finds that section 88-137
20 provides the benefits required by this paragraph."

21 SECTION 4. Statutory material to be repealed is bracketed
22 and stricken. New statutory material is underscored.



1 SECTION 5. This Act shall take effect upon its approval.



Report Title:

Employees' Retirement System; Qualified Military Service Benefits; Required Distributions

Description:

Adopts language, regarding death benefits for ERS members on qualified military service, required to maintain the tax-qualified status of the ERS; and adopts provisions for the commencement of benefits required to maintain the tax qualified status of the ERS. (SD2)

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