

TESTIMONY BY WESLEY K. MACHIDA
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 1036

FEBRUARY 8, 2011

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

Chair Rhoads and Members of the Committee:

The Employees' Retirement System of the State of Hawaii (ERS) Board of Trustees strongly supports H.B. 1036, which provides for language in state law to comply with federal law.

The ERS is already providing the death benefits required by federal law under the HEART Act. However, the federal law requires specific language, in order to comply with the appropriate Internal Revenue Code provisions, which is provided by H.B. 1036.

H.B. 1036 also includes the requirements for minimum pension distributions as described in the Internal Revenue Code Section 401(a)(9). Those eligible members (who are no longer State or county employees), who attain 70 ½ years of age and who have met the vesting requirements under the respective ERS plan, are to receive minimum pension benefit payments.

The two requirements previously mentioned are needed for the ERS to maintain its tax exempt status. The loss of its tax exempt status would be extremely detrimental to the ERS and its members. The pre-tax (preferential) treatment on member contributions would be eliminated and ERS members would be required to pay federal income taxes annually on the value or increase in value of a member's account without receiving a distribution from the ERS. These taxes could amount to thousands of dollars from the member who would have to find monies outside of their ERS pension account to pay for this tax.

Because of the potential tax consequences to the ERS and its members, the ERS Board of Trustees strongly supports the passage of H.B. 1036. Thank you for the opportunity to testify on this important measure.