

TESTIMONY BY WESLEY K. MACHIDA
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT
ON
SENATE BILL NO. 1341, S.D. 2

MARCH 22, 2011

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Rhoads and Members of the Committee:

S.B. 1341, S.D. 2 provides for retirement benefit changes for State and County employees who become members of the Employees' Retirement System of the State of Hawaii (ERS) after a certain date. The ERS Board of Trustees strongly supports this bill as it seeks to improve the ERS' funded status, and they also recommend that the bill be amended to the provisions in H.B. 1038, HD 2 with the technical amendments on the attached document.

This measure seeks to reduce future liability by making changes for future State and County employees, which will provide for reasonable changes to employer contribution rates while State and county employers face challenging budgets. Changes are being proposed for all employee groups to reduce the benefit multiplier, post retirement increase, and Hybrid Plan account; increase the vesting period, average final compensation (AFC) period, and employee contribution rate. The ERS also proposes or supports additional changes to raise the retirement age and to reduce the "regular interest" paid on employee contributions. All of these changes will result in cost savings, which will help to prevent further increases to the employer contribution requirements that would otherwise be necessary to amortize the ERS's UAAL within a 30-year period. The following cost savings (or reduced contribution savings) estimated by the ERS Actuary for the next 5 fiscal years are anticipated if all of the benefit changes for new hires are implemented:

FY 2012:	\$54 million
FY 2013:	\$92 million
FY 2014:	\$95 million
FY 2015:	\$98 million
FY 2016:	\$101 million

return rate. The investment return rate is currently set by Hawaii state statute at 8%. The ERS exceeded the assumed 8% investment return rate for five of the past ten years; however, it fell below the 8% return rate for the other five years, resulting in an average return rate of approximately 3% for the past ten years. Although the past ten years may not be a reliable indicator for the future, several ERS investment managers have indicated that it will be extremely difficult to achieve an 8% average investment return rate over the next ten years. Many public pension plans have decreased or are contemplating a reduction to their investment return rate to 7.75% or even 7.5%. Based on analysis and the recommendations of the ERS Actuary and Investment Consultant, the ERS Board of Trustees approved a decrease in the investment return rate assumption from 8% to 7.75%.

The ERS Board of Trustees should be allowed to establish the investment return rate based on recommendations by its Actuary and Investment Consultant. The investment return rate assumption is used to determine the funding level of ERS and contribution rates for employers. If the investment return rate assumption is not realistic, the funding level of the ERS could either be understated or overstated, and employer contribution rates may not be set at levels appropriate to meet the long-term costs of the ERS. If the investment return rate assumption is set by statute, then the Board may be required to assume additional risk to meet this rate. The additional risk could result in achieving the statutory rate; however additional risk could also result in severe underperformance during difficult economic times, thereby further increasing the ERS's unfunded actuarial accrued liability, which is currently reported at \$7.1 billion.

As a result, the ERS Board of Trustees strongly supports the passage of S.B. 1314, S.D. 2 (including ERS suggested changes). Thank you for the opportunity to testify on this important measure.

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HB 1038, HD2 – Technical Corrections

The marked changes are intended to incorporate the operative provisions of Part IV (originally HB 1142) into Part I (the original HB 1038). HB 1038, as introduced, included all of the benefit changes proposed by the ERS, except changes in retirement age. HB 1142 included only the ERS's proposed changes in retirement age; it did not include any of the other changes proposed by the ERS, i.e., it retained the current provisions for multiplier and minimum years of service.

As revised, Part I incorporates all of the changes to the benefit structure proposed by the ERS. These changes affect individuals who become ERS members after June 30, 2012.

Part II (originally HB 1037) includes the changes to employer contribution rates proposed by the ERS.

Part III (originally HB 817) includes a reduction in the "regular interest" credited to employee contributions. The reduction applies to individuals who become ERS members after June 30, 2012. ERS supports the intent of the HB 817.

Part IV (renumbered) (originally HB 1143) reduces the investment yield assumption for the ERS to 7.75% for the fiscal year ending June 30, 2011, and authorizes the ERS Board to thereafter set the investment yield assumption. This is a measure that the ERS proposed.

The changes also correct technical errors and make conforming amendments to the HRS sections affected by HB 1038, HD2. (The changes to proposed HRS § 88-74(h) are intended to conform that subsection to proposed HRS § 88-74(g).)

The effective date of the bill is July 1, 2011, except for Part IV, which is effective June 30, 2011.

Inserts:

INSERT #1 (on p. 2): see p. 53.

INSERT #2 (on p. 8): see p. 55.

INSERT #3 (on p. 27): . If the member has not attained age sixty, the member's retirement allowance shall be computed as though the member had attained age sixty, reduced for age as provided in subsection (i);

INSERT #4 (on p. 30): see p. 75.

INSERT #5 (on p. 43): see p. 76.

INSERT #6 (on p. 43): see p. 77.

Technical Corrections

HOUSE OF REPRESENTATIVES
TWENTY-SIXTH LEGISLATURE, 2011
STATE OF HAWAII

H.B. NO. 1038
H.D. 2

A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

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

1 PART I

2 SECTION 1. Section 88-45, Hawaii Revised Statutes, is
3 amended to read as follows:

4 "§88-45 Employee contributions. After June 30, 1988, each
5 class A and class B member shall contribute seven and eight-
6 tenths per cent of the member's compensation to the annuity
7 savings fund; provided that after June 30, 1989, all
8 firefighters, police officers, corrections officers,
9 investigators of the departments of the prosecuting attorney and
10 of the attorney general, narcotics enforcement investigators,
11 water safety officers not making the election under section 88-
12 271, and public safety investigations staff investigators shall
13 contribute twelve and two-tenths per cent of their compensation
14 to the annuity savings fund for service in that capacity[-];
15 provided further that each class A and class B member who
16 becomes a member after June 30, 2012, shall contribute nine and
17 eight-tenths per cent of the member's compensation to the
18 annuity savings fund; provided further that all firefighters,

HB1038 HD2 HMS 2011-2854



Insert #1

1 police officers, corrections officers, investigators of the
 2 departments of the prosecuting attorney and of the attorney
 3 general, narcotics enforcement investigators, and public safety
 4 investigations staff investigators who become members after June
 5 30, 2012, shall contribute fourteen and two-tenths per cent of
 6 their compensation to the annuity savings fund for service in
 7 that capacity."

8 SECTION 2. Section 88-62, Hawaii Revised Statutes, is
 9 amended to read as follows:

10 **"§88-62 Return to service of a former member. (a) For**
 11 **members who became members before July 1, 2012:**

12 (1) If a former member who has less than five years of
 13 credited service and who has been out of service for a
 14 period of four full calendar years or more after the
 15 year in which the former member left service, or if a
 16 former member who withdrew the former member's
 17 accumulated contributions returns to service, the
 18 former member shall become a member in the same manner
 19 and under the same conditions as anyone first entering
 20 service; however, the former member may obtain
 21 membership service credit in the manner provided by
 22 applicable law for credited service that was forfeited



1 by the member upon termination of the member's
2 previous membership. If the member did not withdraw
3 the former member's accumulated contributions prior to
4 the former member's return to service, the accumulated
5 contributions shall be returned to the member as part
6 of the process of enrolling the member in the system
7 if the member's accumulated contributions are \$1,000
8 or less at the time of distribution. If the
9 accumulated contributions for the service the member
10 had when the member previously terminated employment
11 are greater than \$1,000 and the member does not make
12 written application, prior to or contemporaneously
13 with the member's return to service, for return of the
14 accumulated contributions, the member may not withdraw
15 the member's accumulated contributions, except as
16 provided by section 88-96 or 88-341, until the member
17 retires or attains age sixty-two. The member shall
18 not be entitled to service credit by reason of the
19 system's retention of the member's accumulated
20 contributions for the service the member had when the
21 member previously terminated employment.



1 To be eligible for any benefit, the member shall
2 fulfill the membership service requirements for the
3 benefit through membership service after again
4 becoming a member, in addition to meeting any other
5 eligibility requirement established for the benefit;
6 provided that the membership service requirement shall
7 be exclusive of any former service acquired in
8 accordance with section 88-59 or any other section in
9 part II, VII, or VIII[-];

10 ~~[(+)]~~ (2) If a former member with less than five years of
11 credited service and who did not withdraw the former
12 member's accumulated contributions returns to service
13 within four full calendar years after the year in
14 which the former member left service, the former
15 member shall again become a member in the same manner
16 and under the same conditions as anyone first entering
17 service, except that the member shall be credited with
18 service credit for the service the member had when the
19 member terminated employment and:

20 ~~[(+)]~~ (A) If the member returns to service as a class A or
21 class B member, the member's new and previous
22 accumulated contributions shall be combined; or



1 ~~[(2)]~~ (B) If the member returns to service after June 30,
2 2006, as a class H member, section 88-321(b) shall
3 apply~~[-]~~; and

4 ~~[(e)]~~ (3) If a former member with five or more years of
5 credited service who did not withdraw ~~[his]~~ the former
6 member's contributions returns to service, ~~[his]~~ the
7 former member's status shall be in accordance with the
8 provisions described in section 88-97.

9 (b) For members who become members after June 30, 2012:

10 (1) If a former member who has less than ten years of
11 credited service and who has been out of service for a
12 period of four full calendar years or more after the
13 year in which the former member left service, or if a
14 former member who withdrew the former member's
15 accumulated contributions returns to service, the
16 former member shall become a member in the same manner
17 and under the same conditions as anyone first entering
18 service; however, the former member may obtain
19 membership service credit in the manner provided by
20 applicable law for credited service that was forfeited
21 by the member upon termination of the member's
22 previous membership. If the member did not withdraw



1 the former member's accumulated contributions prior to
2 the former member's return to service, the accumulated
3 contributions shall be returned to the member as part
4 of the process of enrolling the member in the system
5 if the member's accumulated contributions are \$1,000
6 or less at the time of distribution. If the
7 accumulated contributions for the service the member
8 had when the member previously terminated employment
9 are greater than \$1,000 and the member does not make
10 written application, prior to or contemporaneously
11 with the member's return to service, for return of the
12 accumulated contributions, the member may not withdraw
13 the member's accumulated contributions, except as
14 provided by section 88-96 or 88-341, until the member
15 retires or attains age sixty-two. The member shall
16 not be entitled to service credit by reason of the
17 system's retention of the member's accumulated
18 contributions for the service the member had when the
19 member previously terminated employment. To be
20 eligible for any benefit, the member shall fulfill the
21 membership service requirements for the benefit
22 through membership service after again becoming a



1 member, in addition to meeting any other eligibility
2 requirement established for the benefit; provided that
3 the membership service requirement shall be exclusive
4 of any former service acquired in accordance with
5 section 88-59 or any other section in part II, VII, or
6 VIII;

7 (2) If a former member with less than ten years of
8 credited service and who did not withdraw the former
9 member's accumulated contributions returns to service
10 within four full calendar years after the year in
11 which the former member left service, the former
12 member shall again become a member in the same manner
13 and under the same conditions as anyone first entering
14 service, except that the member shall be credited with
15 service credit for the service the member had when the
16 member terminated employment:

17 (A) If the member returns to service as a class A or
18 class B member, the member's new and previous
19 accumulated contributions shall be combined; or

20 (B) If the member returns to service as a class H
21 member, section 88-321(b) shall apply;

22 and



1 (3) If a former member with ten or more years of credited
 2 service who did not withdraw the former member's
 3 contributions returns to service, the former member's
 4 status shall be in accordance with the provisions
 5 described in section 88-97."

6 SECTION 3. Section 88-73, Hawaii Revised Statutes, is
 7 amended by amending subsections (a) and (b) to read as follows:

8 "(a) Any member who:

9 (1) Became a member before July 1, 2012, and has at least
 10 five years of credited service and [who] has attained
 11 age fifty-five [or any member who has];

12 (2) ~~has~~ ^{Became a member before July 1, 2012 and} at least twenty-five years of credited service [~~or~~
 13 any member who has];

14 (3) Has at least ten years of credited service, which
 15 includes service as a judge before July 1, 1999, an
 16 elective officer, or a legislative officer[~~r~~]; OR

17 (4) Becomes a member after June 30, 2012, and has at least
 18 ten years of credited service and has attained age
 19 ~~fifty-five~~ ^{sixty} OR

20 shall become eligible to receive a retirement allowance after
 21 the member has terminated service.

Insert #2

1 (b) Any member who first earned credited service as a
 2 judge after June 30, 1999, but before July 1, 2012, and who has
 3 at least five years of credited service and has attained age
 4 fifty-five or has at least twenty-five years of credited service
 5 shall become eligible to receive a retirement allowance after
 6 the member has terminated service. Any member who first earned
 7 credited service as a judge after June 30, 2012, and has at
 8 least ten years of credited service and has attained age ~~fifty~~^{sixty}
 9 ~~five~~ or has at least twenty-five years of credited service shall
 10 be eligible to receive a retirement allowance after the member
 11 has terminated service." and has attained age fifty-five

12 SECTION 4. Section 88-74 , Hawaii Revised Statutes, is
 13 amended to read as follows:

14 "**§88-74 Allowance on service retirement.** (a) Upon
 15 retirement from service, a member shall receive a maximum
 16 retirement allowance as [~~follows~~] provided in this section.

17 [~~(1)~~] (b) If [~~the~~] a member, who became a member before
 18 July 1, 2012, has attained age fifty-five, [~~a~~] the member's
 19 maximum retirement allowance [~~of~~] shall be two per cent of the
 20 member's average final compensation multiplied by the total
 21 number of years of the member's credited service as a class A
 22 and class B member, excluding any credited service as a judge,

1 elective officer, or legislative officer, plus a retirement
2 allowance of one and one-fourth per cent of the member's average
3 final compensation multiplied by the total number of years of
4 prior credited service as a class C member, plus a retirement
5 allowance of two per cent of the member's average final
6 compensation multiplied by the total number of years of prior
7 credited service as a class H member; provided that:

8 ~~[(A)]~~ (1) After June 30, 1968, if the member has at least
9 ten years of credited service of which the last five
10 or more years prior to retirement is credited service
11 as a firefighter, police officer, or an investigator
12 of the department of the prosecuting attorney;

13 ~~[(B)]~~ (2) After June 30, 1977, if the member has at least
14 ten years of credited service of which the last five
15 or more years prior to retirement is credited service
16 as a corrections officer;

17 ~~[(C)]~~ (3) After June 16, 1981, if the member has at least
18 ten years of credited service of which the last five
19 or more years prior to retirement is credited service
20 as an investigator of the department of the attorney
21 general;



1 ~~[(D)]~~ (4) After June 30, 1989, if the member has at least
2 ten years of credited service of which the last five
3 or more years prior to retirement is credited service
4 as a narcotics enforcement investigator;

5 ~~[(E)]~~ (5) After December 31, 1993, if the member has at
6 least ten years of credited service of which the last
7 five or more years prior to retirement is credited
8 service as a water safety officer;

9 ~~[(F)]~~ (6) After June 30, 1994, if the member has at least
10 ten years of credited service, of which the last five
11 or more years prior to retirement are credited service
12 as a public safety investigations staff investigator;

13 ~~[(G)]~~ (7) After June 30, 2002, if the member:

14 ~~[(i)]~~ (A) Has at least ten years of credited service
15 as a firefighter;

16 ~~[(ii)]~~ (B) Is deemed permanently medically disqualified
17 due to a service related disability to be a
18 firefighter by the employer's physician; and

19 ~~[(iii)]~~ (C) Continues employment in a class A or B
20 position other than a firefighter; and

21 ~~[(H)]~~ (8) After June 30, 2004, if the member:



1 ~~[(i)]~~ (A) Has at least ten years of credited service
2 as a police officer;

3 ~~[(ii)]~~ (B) Is deemed permanently medically disqualified
4 due to a service related disability to be a
5 police officer by the employer's physician; and

6 ~~[(iii)]~~ (C) Continues employment in a class A or B
7 position other than a police officer;

8 then for each year of service as a firefighter, police officer,
9 corrections officer, investigator of the department of the
10 prosecuting attorney, investigator of the department of the
11 attorney general, narcotics enforcement investigator, water
12 safety officer, or public safety investigations staff
13 investigator, the retirement allowance shall be two and one-half
14 per cent of the member's average final compensation. The
15 maximum retirement allowance for those members shall not exceed
16 eighty per cent of the member's average final compensation. If
17 the member has not attained age fifty-five, the member's
18 retirement allowance shall be computed as though the member had
19 attained age fifty-five, reduced for age as provided in
20 subsection ~~[(b)]~~ (e).



1 ~~[(2)]~~ (c) If ~~[the]~~ a member, who became a member prior to
2 July 1, 2012, has credited service as a judge, the member's
3 retirement allowance shall be computed on the following basis:

4 ~~[(A)]~~ (1) For a member who has credited service as a judge
5 before July 1, 1999, irrespective of age, for each
6 year of credited service as a judge, three and one-
7 half per cent of the member's average final
8 compensation in addition to an annuity that is the
9 actuarial equivalent of the member's accumulated
10 contributions allocable to the period of service; ~~[and~~

11 ~~[(B)]~~ (2) For a member who first earned credited service as
12 a judge after June 30, 1999, ^{but before July 1, 2012,} for each year of credited
13 service as a judge, three and one-half per cent of the
14 member's average final compensation in addition to an
15 annuity that is the actuarial equivalent of the
16 member's accumulated contributions allocable to the
17 period of service. If the member has not attained age
18 fifty-five, the member's retirement allowance shall be
19 computed as though the member had attained age fifty-
20 five, reduced for age as provided in subsection ~~[(b)]~~
21 ~~ex]~~ (e);



- 1 ~~[(e)]~~ (3) For a member who first earned credited service as
 2 a judge after June 30, 2012, for each year of credited
 3 service as a judge, three per cent of the member's
 4 average final compensation in addition to an annuity
 5 that is the actuarial equivalent of the member's
 6 accumulated contributions allocable to the period of
 7 service. If the member has not attained age ^{Sixty} ~~fifty~~
 8 ~~five~~, the member's retirement allowance shall be
 9 computed as though the member had attained age ^{Sixty} ~~fifty~~
 10 ~~five~~, reduced for age as provided in subsection ^(c) ~~(e)~~,
 11 (4) For a judge with other credited service, as provided
 12 in ~~[paragraph (1)]~~ subsection (b). If the member has
 13 not attained age fifty-five, the member's retirement
 14 allowance shall be computed as though the member had
 15 attained age fifty-five, reduced for age as provided
 16 in subsection ~~[(b); or]~~ (e); or
 17 ~~[(D)]~~ (5) For a judge with credited service as an elective
 18 officer or as a legislative officer, as provided in
 19 ~~[paragraph (3)]~~ subsection (d).
 20 No allowance shall exceed seventy-five per cent of the member's
 21 average final compensation. If the allowance exceeds this
 22 limit, it shall be adjusted by reducing the annuity included in



1 ~~[subparagraphs (A) and (B)]~~ paragraphs (1), (2), and (3) and the
2 portion of the accumulated contributions specified in ~~[the~~
3 ~~subparagraphs]~~ paragraphs (1), (2), and (3) in excess of the
4 requirements of the reduced annuity shall be returned to the
5 member upon the member's retirement or paid to the member's
6 designated beneficiary upon the member's death while in service
7 or while on authorized leave without pay. The allowance for
8 judges under this ~~[paragraph]~~ ^{subsection} together with the retirement
9 allowance provided by the federal government for similar
10 service, shall in no case exceed seventy-five per cent of the
11 member's average final compensation~~[, or]~~.

12 ~~[(3)]~~ (d) If ~~[the]~~ a member, who became a member before
13 July 1, 2012, has credited service as an elective officer or as
14 a legislative officer, the member's retirement allowance shall
15 be derived by adding the allowances computed separately under
16 ~~[subparagraphs (A), (B), (C), and (D)]~~ paragraphs (1), (2), (3),
17 (4), (5), and (6) as follows:

18 ~~[(A) Irrespective]~~ (1) For a member who has credited
19 service as an elective officer before July 1, 2012,
20 irrespective of age, for each year of credited service
21 as an elective officer, three and one-half per cent of
22 the member's average final compensation as computed



1 under section 88-81(e)(1), in addition to an annuity
2 that is the actuarial equivalent of the member's
3 accumulated contributions allocable to the period of
4 service; [and]

5 (2) For a member, who first earned credited service as an
6 elective officer after June 30, 2012, irrespective of
7 age, for each year of credited service as an elective
8 officer, three per cent of the member's average final
9 compensation as computed under section 88-81(e)(1), in
10 addition to an annuity that is the actuarial
11 equivalent of the member's accumulated contributions
12 allocable to the period of service;

13 [~~B~~] ~~Irrespective]~~ (3) For a member who has credited
14 service as a legislative officer before July 1, 2012,
15 irrespective of age, for each year of credited service
16 as a legislative officer, three and one-half per cent
17 of the member's average final compensation as computed
18 under section 88-81(e)(2), in addition to an annuity
19 that is the actuarial equivalent of the member's
20 accumulated contributions allocable to the period of
21 service;



1 (4) For a member who first earned credited service as a
2 legislative officer after June 30, 2012, irrespective
3 of age, for each year of credited service as a
4 legislative officer, three per cent of the member's
5 average final compensation as computed under section
6 88-81(e)(2), in addition to an annuity that is the
7 actuarial equivalent of the member's accumulated
8 contributions allocable to the period of service;

9 ~~(4)~~ (5) If the member has credited service as a judge,
10 the member's retirement allowance shall be computed on
11 the following basis:

12 ~~(i)~~ (A) For a member who has credited service as a
13 judge before July 1, 1999, irrespective of age,
14 for each year of credited service as a judge,
15 three and one-half per cent of the member's
16 average final compensation as computed under
17 section 88-81(e)(3), in addition to an annuity
18 that is the actuarial equivalent of the member's
19 accumulated contributions allocable to the period
20 of service; ~~and~~

21 ~~(ii)~~ (B) For a member who first earned credited
22 service as a judge after June 30, 1999, but



1 before July 1, 2012, and has attained the age of
2 fifty-five, for each year of credited service as
3 a judge, three and one-half per cent of the
4 member's average final compensation as computed
5 under section 88-81(e) (3), in addition to an
6 annuity that is the actuarial equivalent of the
7 member's accumulated contributions allocable to
8 the period of service. If the member has not
9 attained age fifty-five, the member's retirement
10 allowance shall be computed as though the member
11 had attained age fifty-five, reduced for age as
12 provided in subsection ^(e) [b], and
13 (C) For a member who first earned credited service as
14 a judge after June 30, 2012, and has attained the
15 age of ^{sixty} ~~fifty-five~~, for each year of credited
16 service as a judge, three per cent of the
17 member's average final compensation as computed
18 under section 88-81(e) (3), in addition to an
19 annuity that is the actuarial equivalent of the
20 member's accumulated contributions allocable to
21 the period of service. If the member has not
22 attained age ^{sixty} ~~fifty-five~~, the member's retirement



1 allowance shall be computed as though the member
2 had attained age ^{Sixty} ~~fifty-five~~, reduced for age as
3 provided in subsection ⁽ⁱ⁾ ~~(e)~~, and

4 [~~D~~] (6) For each year of credited service not included in
5 [~~subparagraph (A), (B), or (C),~~] paragraph (1), (2),
6 (3), (4), or (5), the average final compensation as
7 computed under section 88-81(e) (4) shall be multiplied
8 by two per cent for credited service earned as a class
9 A or class H member, two and one-half per cent for
10 credited service earned as a class B member, and one
11 and one-quarter per cent for credited service earned
12 as a class C member. If the member has not attained
13 age fifty-five, the member's retirement allowance
14 shall be computed as though the member had attained
15 age fifty-five, reduced for age as provided in
16 subsection [~~(b)~~] (e).

17 The total retirement allowance shall not exceed seventy-five per
18 cent of the member's highest average final compensation
19 calculated under section 88-81(e) (1), (2), (3), or (4). If the
20 allowance exceeds this limit, it shall be adjusted by reducing
21 any annuity accrued under [~~subparagraphs (A), (B), and (C)~~]
22 paragraphs 1, 2, 3, 4, and 5 and the portion of the accumulated



1 contributions specified in these ~~[subparagraphs]~~ paragraphs in
2 excess of the requirements of the reduced annuity shall be
3 returned to the member upon the member's retirement or paid to
4 the member's designated beneficiary upon the member's death
5 while in service or while on authorized leave without pay. If a
6 member has service credit as an elective officer or as a
7 legislative officer in addition to service credit as a judge,
8 then the retirement benefit calculation contained in this
9 ~~[paragraph]~~ subsection shall supersede the formula contained in
10 ~~[paragraph (2)]~~ subsection (c).

11 ~~[(b)]~~ (e) Except as provided in ~~[subsection (a)]~~,
12 subsections (b), (c), and (d), if a member, who became a member
13 before July 1, 2012, has not attained age fifty-five at the date
14 of retirement, the member's retirement allowance shall be
15 reduced, for each month the member's age at the date of
16 retirement is below age fifty-five, as follows:

- 17 (1) 0.4166 per cent for each month below age fifty-five
18 and above age forty-nine and eleven months; plus
19 (2) 0.3333 per cent for each month below age fifty and
20 above age forty-four and eleven months; plus
21 (3) 0.2500 per cent for each month below age forty-five
22 and above age thirty-nine and eleven months; plus



1 (4) 0.1666 per cent for each month below age forty;
2 provided that no reduction shall be made if the member has at
3 least twenty-five years of credited service as a firefighter,
4 police officer, corrections officer, investigator of the
5 department of the prosecuting attorney, investigator of the
6 department of the attorney general, narcotics enforcement
7 investigator, public safety investigations staff investigator,
8 sewer worker, or water safety officer, of which the last five or
9 more years prior to retirement is credited service in these
10 capacities.

11 (f) If a member, who becomes a member after June 30, 2012,
12 has attained age ^{Sixty} ~~fifty-five~~, the member's maximum retirement
13 allowance shall be one and three-fourths per cent of the
14 member's average final compensation multiplied by the total
15 number of years of the member's credited service as a class A
16 and class B member, excluding any credited service as a judge,
17 elective officer, or legislative officer, plus a retirement
18 allowance of one and one-fourth per cent of the member's average
19 final compensation multiplied by the total number of years of
20 prior credited service as a class C member, plus a retirement
21 allowance of one and three-fourths per cent of the member's
22 average final compensation multiplied by the total number of



1 years of prior credited service as a class H member; provided
2 that:

3 (1) If the member has at least ten years of credited
4 service of which the last five or more years prior to
5 retirement is credited service as a firefighter,
6 police officer, or an investigator of the department
7 of the prosecuting attorney;

8 (2) If the member has at least ten years of credited
9 service of which the last five or more years prior to
10 retirement is credited service as a corrections
11 officer;

12 (3) If the member has at least ten years of credited
13 service of which the last five or more years prior to
14 retirement is credited service as an investigator of
15 the department of the attorney general;

16 (4) If the member has at least ten years of credited
17 service of which the last five or more years prior to
18 retirement is credited service as a narcotics
19 enforcement investigator;

20 (5) If the member has at least ten years of credited
21 service of which the last five or more years prior to



1 retirement is credited service as a water safety
2 officer;

3 (6) If the member has at least ten years of credited
4 service, of which the last five or more years prior to
5 retirement is credited service as a public safety
6 investigations staff investigator;

7 (7) If the member:

8 (A) Has at least ten years of credited service as a
9 firefighter;

10 (B) Is deemed permanently medically disqualified due
11 to a service related disability to be a
12 firefighter by the employer's physician; and

13 (C) Continues employment in a class A or class B
14 position other than a firefighter;

15 and

16 (8) If the member:

17 (A) Has at least ten years of credited service as a
18 police officer;

19 (B) Is deemed permanently medically disqualified due
20 to a service related disability to be a police
21 officer by the employer's physician; and



1 (C) Continues employment in a class A or class B
2 position other than a police officer,
3 then for each year of service as a firefighter, police officer,
4 corrections officer, investigator of the department of the
5 prosecuting attorney, investigator of the department of the
6 attorney general, narcotics enforcement investigator, water
7 safety officer, or public safety investigations staff
8 investigator, the retirement allowance shall be two and one-
9 fourth per cent of the member's average final compensation. The
10 maximum retirement allowance for those members shall not exceed
11 eighty per cent of the member's average final compensation. If
12 the member has not attained age ^{sixty}~~forty-five~~, the member's
13 retirement allowance shall be computed as though the member had
14 attained age ^{sixty}~~forty-five~~, reduced for age as provided in
15 subsection (i).

16 (g) If a member, who becomes a member after June 30, 2012,
17 has credited service as a judge, the member's retirement
18 allowance shall be computed on the following basis:

19 (1) For each year of credited service as a judge, three
20 per cent of the member's average final compensation in
21 addition to an annuity that is the actuarial
22 equivalent of the member's accumulated contributions



1 allocable to the period of service. If the member has
2 not attained age ^{sixty} ~~fifty five~~, the member's retirement
3 allowance shall be computed as though the member had
4 attained age ^{sixty} ~~fifty five~~, reduced for age as provided
5 in subsection (i); and

6 (2) For a judge with other credited service, as provided
7 in subsection (f) ~~or (h)~~, as applicable. If the
8 member has not attained age ^{sixty} ~~fifty five~~, the member's
9 retirement allowance shall be computed as though the
10 member had attained age ^{sixty} ~~fifty five~~, reduced for age as
11 provided in subsection (i); ^{or} and

12 (3) For a judge with credited service as an elective
13 officer or as a legislative officer, as provided in
14 subsection (h).

15 No allowance shall exceed seventy-five per cent of the member's
16 average final compensation. If the allowance exceeds this
17 limit, it shall be adjusted by reducing the annuity included in
18 paragraph (1) and the portion of the accumulated contributions
19 specified in paragraph (1) in excess of the requirements of the
20 reduced annuity shall be returned to the member upon the
21 member's retirement or paid to the member's designated
22 beneficiary upon the member's death while in service or while on



1 authorized leave without pay. The allowance for judges under
2 this subsection, together with the retirement allowance provided
3 by the federal government for similar service, shall in no case
4 exceed seventy-five per cent of the member's average final
5 compensation.

6 (h) If a member, who becomes a member after June 30, 2012,
7 has credited service as an elective officer or as a legislative
8 officer, the member's retirement allowance shall be derived by
9 adding the allowances computed separately under paragraphs (1),
10 (2), (3), and (4) as follows:

11 (1) Irrespective of age, for each year of credited service
12 as an elective officer, three per cent of the member's
13 average final compensation as computed under section
14 88-81(f)(1), in addition to an annuity that is the
15 actuarial equivalent of the member's accumulated
16 contributions allocable to the period of service;

17 (2) Irrespective of age, for each year of credited service
18 as a legislative officer, three per cent of the
19 member's average final compensation as computed under
20 section 88-81(f)(2), in addition to an annuity that is
21 the actuarial equivalent of the member's accumulated
22 contributions allocable to the period of service;



- 1 (3) Irrespective of age, for each year of credited service
 2 as a judge, three per cent of the member's average
 3 final compensation as computed under section 88-
 4 81(f) (3), in addition to an annuity that is the
 5 actuarial equivalent of the member's accumulated
 6 contributions allocable to the period of service, and
 7 (4) For each year of credited service not included in
 8 paragraph (1), (2), or (3), the average final
 9 compensation as computed under section 88-81(f) (4)
 10 shall be multiplied by one and three-fourth per cent
 11 for credited service earned as a class A or class H
 12 member, two and one-fourth per cent for credited
 13 service earned as a class B member, and one and one-
 14 fourth per cent for credited service earned as a class
 15 C member. If the member has not attained age ~~five~~
 16 ~~five~~, the member's retirement allowance shall be
 17 computed as though the member had attained age ~~five~~
 18 ~~five~~, reduced for age as provided in subsection (i).
 19 The total retirement allowance shall not exceed seventy-five per
 20 cent of the member's highest average final compensation
 21 calculated under section 88-81(f)(1), (2), (3), or (4). If the
 22 allowance exceeds this limit, it shall be adjusted by reducing

Insert #3



1 any annuity accrued under paragraphs (1), (2), and (3) and the
 2 portion of the accumulated contributions specified in these
 3 paragraphs in excess of the requirements of the reduced annuity
 4 shall be returned to the member upon the member's retirement or
 5 paid to the member's designated beneficiary upon the member's
 6 death while in service or while on authorized leave without pay.
 7 If a member has service credit as an elective officer or as a
 8 legislative officer in addition to service credit as a judge,
 9 then the retirement benefit calculation contained in this
 10 subsection shall supersede the formula contained in subsection
 11 (g).

12 (i) Except as provided in subsections (f), (g), and (h),
 13 if a member, who becomes a member after June 30, 2012, has not
 14 attained age ~~fifty-five~~ ^{Sixty} at the date of retirement, the member's
 15 retirement allowance shall be reduced, for each month the
 16 member's age at the date of retirement is below age ~~fifty-five~~ ^{Sixty},
 17 as follows:

- 18 (1) 0.4166 per cent for each month below age ~~fifty-five~~ ^{nine}
 19 and above age ~~forty-nine~~ ^{fifty-four} and eleven months; plus
- 20 (2) 0.3333 per cent for each month below age ~~fifty~~ ^{five} and
 21 above age ~~forty-four~~ ^{nine} and eleven months; plus



1 (3) 0.2500 per cent for each month below age ~~forty-five~~ ^{ffly}
2 and above age ~~thirty-nine~~ ^{forty-four} and eleven months; plus

3 (4) 0.1666 per cent for each month below age ~~forty~~ ^{five};

4 provided that no reduction shall be made if the member has at
5 least twenty-five years of credited service as a firefighter,
6 police officer, corrections officer, investigator of the
7 department of the prosecuting attorney, investigator of the
8 department of the attorney general, narcotics enforcement
9 investigator, public safety investigations staff investigator,
10 sewer worker, water safety officer, or emergency medical
11 technician, of which the last five or more years prior to
12 retirement is credited service in these capacities."

attained
the age of
fifty-five
and has

13 SECTION 5. Section 88-74.6, Hawaii Revised Statutes, is
14 amended to read as follows:

15 "§88-74.6 Unreduced allowance on service retirement; when
16 applicable. In addition to those positions identified in
17 section [~~88-74(b)~~] 88-74(e) and notwithstanding any law in this
18 part that requires a member to attain age fifty-five to qualify
19 for an unreduced service retirement allowance, if [~~the~~] a
20 member, who became a member before July 1, 2012, has at least
21 [~~thirty~~];



- 1 (1) Thirty years of credited service through June 30,
- 2 2003; [~~twenty-nine~~]
- 3 (2) Twenty-nine years of credited service on or after July
- 4 1, 2004; [~~twenty-eight~~]
- 5 (3) Twenty-eight years of credited service on or after
- 6 July 1, 2005; [~~twenty-seven~~]
- 7 (4) Twenty-seven years of credited service on or after
- 8 July 1, 2006; [~~twenty-six~~]
- 9 (5) Twenty-six years of credited service on or after July
- 10 1, 2007; [~~and twenty-five~~] or
- 11 (6) Twenty-five years of credited service on or after July
- 12 1, 2008,

13 as an emergency medical technician, of which the last five or
 14 more years prior to retirement is credited service in that
 15 capacity, then upon retirement and irrespective of age, that
 16 member's service retirement allowance shall not be reduced for
 17 actuarial purposes."

18 SECTION 6. Section 88-81, Hawaii Revised Statutes, is
 19 amended to read as follows:
 20 "**§88-81 Average final compensation.** (a) Average final
 21 compensation is the average annual compensation pay or salary

Insert #4

1 upon which a member has made contributions as required by parts
2 II, VII, and VIII of this chapter.

3 (b) The average final compensation of members shall be
4 calculated as follows:

5 (1) For employees who become members [~~prior to~~] before
6 January 1, 1971:

7 (A) During the member's five highest paid years of
8 credited service, including vacation pay, or the
9 three highest paid years of credited service
10 excluding vacation pay, whichever is greater; or

11 (B) If the member has less than three years of
12 credited service, during the member's actual
13 years of credited service[-];

14 (2) For employees who become members [~~on or after January~~
15 ~~1, 1971+~~] after December 31, 1970, but before July 1,
16 2012:

17 (A) During the member's three highest paid years of
18 credited service, excluding vacation pay; or

19 (B) If the member has less than three years of
20 credited service, during the member's actual
21 years of credited service[-]; and

22 (3) For employees who become members after June 30, 2012:



- 1 (A) During the member's five highest paid years of
2 credited service, excluding vacation pay; or
3 (B) If the member has less than five years of
4 credited service, during the member's actual
5 years of credited service.

6 (c) In computing the compensation of a judge, the
7 compensation paid to the judge by the United States as well as
8 by the Territory shall be included.

9 (d) For service rendered as a member of the legislature
10 from and after November 5, 1968, the actual annual salary of a
11 member shall be the only amount used for determining the
12 member's average final compensation. For service rendered as a
13 member of the legislature prior to November 5, 1968, and after
14 admission of this State into the Union, the annual compensation
15 of a member shall be computed, for the purpose of determining
16 the member's average final compensation, as follows: [~~during~~]

17 (1) During a year in which a general session was held, it
18 shall be deemed to have been an amount equal to four
19 times the salary of a member of the legislature for a
20 general session; and [~~during~~]

21 (2) During a year in which a budget session was held, it
22 shall be deemed to have been an amount equal to six



1 times the salary of a member of the legislature for a
2 budget session.

3 For service rendered as a member of the legislature prior to the
4 admission of this State into the Union, the annual compensation
5 of a member shall be deemed to have been four times the salary
6 of a member of the legislature for a regular session for each
7 year during the member's term of office.

8 (e) If a member, who became a member before July 1, 2012,
9 has credited service rendered as an elective officer or as a
10 legislative officer, the member's average final compensation
11 shall be computed separately for each category of service as
12 follows:

13 (1) For the three highest paid years of credited service
14 as an elective officer, or if the member has less than
15 three years of credited service in that capacity, then
16 the member's actual years of credited service;

17 (2) For the three highest paid years of credited service
18 as a legislative officer, or if the member has less
19 than three years of credited service in that capacity,
20 then the member's actual years of credited service;

21 (3) For the three highest paid years of credited service
22 as a judge, or if the member has less than three years



1 of credited service in that capacity, then the
2 member's actual years of credited service; and

3 (4) For the three highest paid years of credited service
4 not included in paragraph (1), (2), or (3), or if the
5 member has less than three years of credited service
6 in that capacity, then the member's actual years of
7 credited service.

8 (f) If a member, who becomes a member after June 30, 2012,
9 has credited service rendered as an elective officer or as a
10 legislative officer, the member's average final compensation
11 shall be computed separately for each category of service as
12 follows:

13 (1) For the five highest paid years of credited service as
14 an elective officer, or if the member has less than
15 five years of credited service in that capacity, then
16 the member's actual years of credited service;

17 (2) For the five highest paid years of credited service as
18 a legislative officer, or if the member has less than
19 five years of credited service in that capacity, then
20 the member's actual years of credited service;

21 (3) For the five highest paid years of credited service as
22 a judge, or if the member has less than three years of



1 credited service in that capacity, then the member's
2 actual years of credited service; and

3 (4) For the five highest paid years of credited service
4 not included in paragraph (1), (2), or (3), or if the
5 member has less than five years of credited service in
6 that capacity, then the member's actual years of
7 credited service."

8 SECTION 7. Section 88-90, Hawaii Revised Statutes, is
9 amended to read as follows:

10 "§88-90 Post retirement allowances. (a) There shall be
11 payable to each person receiving any pension, annuity or
12 retirement allowance, a post retirement allowance which shall
13 consist of an amount equivalent to one and one-half per cent of
14 the monthly pension, annuity, or retirement allowance as
15 originally computed, approved, and paid. This benefit shall be
16 added to the monthly pension, annuity, or retirement allowance
17 on the first day of July in each year following June 30, 1961,
18 as follows:

19 (1) To each person receiving a pension, annuity, or
20 retirement allowance on June 30, 1961, payment of the
21 benefit shall commence on July 1, 1961, except that
22 after June 30, 1963, the monthly benefits payable



1 under this subsection shall be computed and paid on
2 the basis of the number of years that has elapsed
3 since the person entitled thereto first became the
4 recipient of the pension, annuity, or retirement
5 allowance from which the benefit is derived[-]; and

6 (2) To each person first receiving a pension, annuity, or
7 retirement allowance after June 30, 1961, payment of
8 the benefit shall commence on the first of July
9 following the calendar year in which the payment of
10 the pension, annuity, or retirement allowance is
11 effective.

12 (b) After June 30, 1970, the post retirement allowance
13 shall consist of an amount equivalent to two and one-half per
14 cent of the monthly pension, annuity, or retirement allowance as
15 originally computed and paid. This benefit shall be payable on
16 the first day of July in each year following June 30, 1970, as
17 follows:

18 (1) To each person, who on June 30, 1970, was receiving a
19 post retirement allowance as described under
20 subsection (a) hereof, payment of the benefit shall
21 commence on July 1, 1970[-]; and



1 (2) To each person first receiving a pension, annuity, or
2 retirement allowance after December 31, 1968, payment
3 of the benefit shall commence on the first day of July
4 following the calendar year in which the payment of
5 the pension, annuity, or retirement allowance is
6 effective.

7 (c) Notwithstanding subsections (a) and (b), for employees
8 who become members after June 30, 2012, and for any person who
9 receives a monthly pension, annuity or retirement allowance as a
10 beneficiary or survivor of the employee, the post retirement
11 allowance shall consist of an amount equivalent to one and one
12 half per cent of the monthly pension, annuity, or retirement
13 allowance as originally computed and paid. Payment of the
14 benefit shall commence on the first day of July following the
15 calendar year in which the payment of the pension, annuity or
16 retirement allowance is effective."

17 SECTION 8. Section 88-96, Hawaii Revised Statutes, is
18 amended by amending subsections (a) and (b) to read as follows:

19 "(a) Any member who ceases to be an employee and who
20 became a member before July 1, 2012, and has fewer than five
21 years of credited service, excluding unused sick leave, or who
22 becomes a member after June 30, 2012, and has fewer than ten



1 years of credited service, excluding sick leave, shall, upon
2 application to the board, [~~shall~~] be paid all of the member's
3 accumulated contributions and the member's membership shall
4 thereupon terminate and all credited service shall be forfeited;
5 provided that a member shall not be paid the member's
6 accumulated contributions:

7 (1) If the member becomes an employee again within fifteen
8 calendar days from the date the member ceased to be an
9 employee; or

10 (2) If, at the time the application for return of
11 accumulated contributions is received by the board,
12 the member has become an employee again.

13 Regular interest shall be credited to the former employee's
14 account until the former employee's accumulated contributions
15 are returned to the former employee; provided that the former
16 employee's membership shall not continue after the fourth full
17 year following the calendar year in which the individual's
18 employment terminates. Upon termination of the former
19 employee's membership, the former employee's credited service
20 shall be forfeited and, if the former employee's accumulated
21 contributions are \$1,000 or less at the time of distribution,
22 the system shall return the former employee's contributions to



1 the former employee. If the former employee does not become an
2 employee again and if the former employee's accumulated
3 contributions have not been withdrawn by the former employee or
4 previously returned by the system to the former employee, the
5 system shall return the former employee's accumulated
6 contributions to the former employee as soon as possible after
7 the former employee attains age sixty-two.

8 (b) Any member [~~having five or more years of credited~~
9 ~~service~~] who ceases to be an employee[~~r~~] and who became a member
10 before July 1, 2012, and has more than five years of credited
11 service, excluding unused sick leave, or who becomes a member
12 after June 30, 2012, and has more than ten years of credited
13 service, excluding sick leave, shall, upon application to the
14 board, [~~shall~~] be paid all of the member's accumulated
15 contributions and thereupon the former employee's membership
16 shall terminate and all credited service shall be forfeited;
17 provided that a member shall not be paid the member's
18 accumulated contributions:

19 (1) If the member becomes an employee again within fifteen
20 calendar days from the date the member ceased to be an
21 employee; or



1 (2) If, at the time the application for return of
2 accumulated contributions is received by the board,
3 the member has become an employee again.

4 If the contributions are not withdrawn by the former
5 employee within four calendar years following the calendar year
6 in which the former employee's employment terminates, the former
7 employee shall have established vested benefit status and shall
8 be eligible for the service retirement benefit in effect at the
9 time of the former employee's retirement, payable in accordance
10 with this chapter; provided that if the former employee
11 withdraws the former employee's accumulated contributions, the
12 former employee's vested benefit status shall terminate and all
13 credited service shall be forfeited."

14 SECTION 9. Section 88-311, Hawaii Revised Statutes, is
15 amended by amending the definition of "hypothetical account
16 balance" to read as follows:

17 "Hypothetical account balance" means:

18 (1) For members who became members before July 1, 2012,

19 the sum of:

20 ~~[(1)]~~ (A) One and one-half times the sum of:



1 ~~[(A)]~~ (i) Employee contributions made, either by the
2 member or on behalf of the member, pursuant
3 to section 88-325; ~~[and~~

4 ~~+(B)]~~ (ii) Accumulated interest at the regular interest
5 rate on the employee contributions; and

6 ~~[(2)]~~ (B) Any employee contributions, including
7 rollovers and contributions used to convert
8 credited service to class H credited service, or
9 used to purchase service, and accumulated
10 interest on the employee contributions at the
11 regular interest rate~~[-]~~;

12 or

13 (2) For members who become members after June 30, 2012,
14 the sum of:

15 (A) One and one-fifth times the sum of:

16 (i) Employee contributions made, either by the
17 member or on behalf of the member, pursuant
18 to section 88-325; and

19 (ii) Accumulated interest at the regular interest
20 rate on the employee contributions;

21 and



1 (B) Any employee contributions, including rollovers
2 and contributions used to convert credited
3 service to class H credited service, or used to
4 purchase service, and accumulated interest on the
5 employee contributions at the regular interest
6 rate."

7 SECTION 10. Section 88-325, Hawaii Revised Statutes, is
8 amended to read as follows:

9 "~~§~~88-325~~§~~ **Employee contributions.** (a) Each class H
10 member, who became a member before July 1, 2012, shall
11 contribute six per cent of the member's compensation to the
12 annuity savings fund; provided that each sewer worker, water
13 safety officer, and emergency medical technician who became a
14 member before July 1, 2012, and is a class H member shall
15 contribute nine and ~~seventy five one hundredths~~ three-fourths
16 per cent of the member's compensation to the annuity savings
17 fund for service in that capacity.

18 (b) Each class H member, who becomes a member after June
19 30, 2012, shall contribute eight per cent of the member's
20 compensation to the annuity savings fund; provided that each
21 sewer worker, water safety officer, and emergency medical
22 technician who becomes a member after June 30, 2012, and is a



1 class H member shall contribute eleven and three-fourths per
2 cent of the member's compensation to the annuity savings fund
3 for service in that capacity."

4 SECTION 11. Section 88-331, Hawaii Revised Statutes, is
5 amended by amending subsection (a) to read as follows:

6 *1. By amending subsections (a) and (b) to read as follows:*
7 "(a) A class H member who:

8 (1) Became a member before July 1, 2012, and has at least
9 five years of credited service and has attained age

10 sixty-two [or a class H member with];
Became a member before July 1, 2012,

11 (2) has at least thirty years of credited service, [who]
12 and has attained the age of fifty-five; or

13 (3) Becomes a member after June 30, 2012, and has at least
14 ten years of credited service, and has attained age

15 sixty-two^{five} or

16 shall become eligible to receive a retirement allowance after
17 the member has terminated service.

18 SECTION 12. Section 88-332, Hawaii Revised Statutes, is
19 amended to read as follows:

20 "88-332 Service retirement allowance. (a) Upon
21 retirement from service, a class H member who became a member
22 before July 1, 2012, shall receive a maximum retirement
allowance as follows:

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1 (1) If the member has met the requirements in section 88-
2 331(a), (b), or (d), a maximum retirement allowance of
3 two per cent of the average final compensation
4 multiplied by the number of years of class H credited
5 service, plus a retirement allowance at the rate of
6 one and one-fourth per cent of the member's average
7 final compensation multiplied by the number of years
8 of class C credited service; or

9 (2) If the member has met the requirements in section 88-
10 331(c), an early retirement allowance equal to the
11 maximum retirement allowance calculated as provided in
12 paragraph (1), reduced by 0.4166 per cent for each
13 month the member is less than age sixty-two at
14 retirement.

15 (b) Upon retirement from service, a class H member who
16 becomes a member after June 30, 2012, shall receive a maximum
17 retirement allowance as follows:

18 (1) If the member has met the requirements in section 88-
19 331(a), (b), or (d), a maximum retirement allowance of
20 one and three-fourths per cent of the average final
21 compensation multiplied by the number of years of
22 class H credited service, plus a retirement allowance



1 at the rate of one and one-fourth per cent of the
2 member's average final compensation multiplied by the
3 number of years of class C credited service; or
4 (2) If the member has met the requirements in section 88-
5 331(c), an early retirement allowance equal to the
6 maximum retirement allowance calculated as provided in
7 paragraph (1), reduced by 0.4166 per cent for each
8 month the member is less than age sixty-^{five}~~two~~ at
9 retirement."

10 SECTION 13. Section 88-341, Hawaii Revised Statutes, is
11 amended by amending subsections (a) and (b) to read as follows:

12 "(a) Any class H member who ceases to be an employee and
13 who became a member before July 1, 2012, and has fewer than five
14 years of credited service, excluding unused sick leave, or who
15 becomes a member after June 30, 2012, and has fewer than ten
16 years of credited service, excluding unused sick leave, shall,
17 upon application to the board, be paid all of the former
18 employee's accumulated contributions, and the former employee's
19 membership shall thereupon terminate and all credited service
20 shall be forfeited; provided that an individual shall not be
21 paid the individual's accumulated contributions if either:



1 (1) The individual becomes an employee again within
2 fifteen calendar days from the date the individual
3 ceased to be an employee; or

4 (2) At the time the application for return of accumulated
5 contributions is received by the board, the individual
6 has become an employee again.

7 Regular interest shall be credited to the former employee's
8 account until the former employee's accumulated contributions
9 are withdrawn; provided that the former employee's membership
10 shall not continue after the fourth full year following the
11 calendar year in which the individual's employment terminates.
12 If the former employee does not become an employee again and has
13 not withdrawn the former employee's accumulated contributions,
14 the system shall return the former employee's accumulated
15 contributions to the former employee as soon as possible after
16 the former employee attains age sixty-two.

17 (b) Any class H member [~~having five or more years of~~
18 ~~credited service~~] who ceases to be an employee[~~r~~] and who became
19 a member before July 1, 2012, and has more than five years of
20 credited service, excluding unused sick leave, or who becomes a
21 member after June 30, 2012, and has more than ten years of
22 credited service, excluding sick leave, shall, upon application



1 to the board, [~~shall~~] be paid an amount equal to the former
2 employee's hypothetical account balance and the former
3 employee's membership shall thereupon terminate and all credited
4 service shall be forfeited; provided that the individual shall
5 not be paid the individual's hypothetical account balance if
6 either:

7 (1) The individual becomes an employee again within
8 fifteen calendar days from the date the individual
9 ceased to be an employee; or

10 (2) At the time the application for payment of the
11 individual's hypothetical account balance is received
12 by the board, the individual has become an employee
13 again.

14 If the contributions are not withdrawn by the former
15 employee after the individual's employment terminates, the
16 former employee shall have vested benefit status and shall be
17 eligible for the service retirement benefit in effect at the
18 time of the former employee's retirement, payable in accordance
19 with this chapter."

20 PART II

21 SECTION 14. Section 88-122, Hawaii Revised Statutes, is
22 amended by amending subsection (e) to read as follows:

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1 "(e) Commencing with fiscal year 2005-2006 and each
2 subsequent fiscal year, the employer contributions for normal
3 cost and accrued liability for each of the two groups of
4 employees in subsection (a) shall be based on fifteen and three-
5 fourths per cent of the member's compensation for police
6 officers, firefighters, and corrections officers and thirteen
7 and three-fourths per cent of the member's compensation for all
8 other employees. Commencing with fiscal year 2008-2009 and each
9 subsequent fiscal year[~~7~~] until fiscal year 2011-2012, the
10 employer contributions for normal cost and accrued liability for
11 each of the two groups of employees in subsection (a) shall be
12 based on nineteen and seven-tenths per cent of the member's
13 compensation for police officers, firefighters, and corrections
14 officers and fifteen per cent of the member's compensation for
15 all other employees. In fiscal year 2012-2013, the employer
16 contributions for normal cost and accrued liability for each of
17 the two groups of employees in subsection (a) shall be based on
18 twenty-two per cent of the member's compensation for police
19 officers, firefighters, and corrections officers and fifteen and
20 one-half per cent of the member's compensation for all other
21 employees. In fiscal year 2013-2014, the employer contributions
22 for normal cost and accrued liability for each of the two groups



1 of employees in subsection (a) shall be based on twenty-three
2 per cent of the member's compensation for police officers,
3 firefighters, and corrections officers and sixteen per cent of
4 the member's compensation for all other employees. In fiscal
5 year 2014-2015, the employer contributions for normal cost and
6 accrued liability for each of the two groups of employees in
7 subsection (a) shall be based on twenty-four per cent of the
8 member's compensation for police officers, firefighters, and
9 corrections officers and sixteen and one-half per cent of the
10 member's compensation for all other employees. Commencing with
11 fiscal year 2015-2016 and each subsequent fiscal year, the
12 employer contributions for normal cost and accrued liability for
13 each of the two groups of employees in subsection (a) shall be
14 based on twenty-five per cent of the member's compensation for
15 police officers, firefighters, and corrections officers and
16 seventeen per cent of the member's compensation for all other
17 employees. The contribution rates shall amortize the total
18 unfunded accrued liability of the entire plan over a period not
19 to exceed thirty years. ^CEffective January 2, 2008, until
20 January 2, 2011, there shall be no benefit enhancements under
21 this chapter for any group of members, including any reduction
22 of retirement age, when there is an unfunded accrued liability.



- 1 The contribution rates shall be subject to adjustment:
- 2 (1) If the actual period required to amortize the unfunded
- 3 accrued liability exceeds thirty years;
- 4 (2) If there is no unfunded accrued liability; or
- 5 (3) Based on the actuarial investigation conducted in
- 6 accordance with section 88-105."

7 PART III

8 SECTION 15. The purpose of this part is to address the
9 employees' retirement system. *of the State of Hawaii*

10 More specifically, this part reduces the percentage of

11 regular interest to be credited to a new public employees'

12 retirement account. The legislature finds that a reduced

13 percentage established pursuant to this part is comparable to

14 interest on savings accounts, certificates of deposit, and other

15 similar investment vehicles. The legislature further finds that

16 this part is necessary to control the public employers'

17 contributions to the employees' retirement system.

18 This part includes a study to be conducted in the future by

19 the board of trustees of the system on the appropriateness of

20 the new regular interest rate. Based on the study, the board

21 shall recommend changing the rate or keeping it the same.



1 SECTION 16. Section 88-21, Hawaii Revised Statutes, is
2 amended by amending the definition of "regular interest" to
3 read:

4 "Regular interest":

5 (1) For a member who ~~first entered service~~ ^{became a member} before July 1,
6 2011, interest at four and one-half per cent a year,

7 compounded annually[-]; and ^{becomes a member}

8 (2) For a member who ~~enters service~~ after June 30, 2011,
9 interest at two per cent a year, compounded annually."

10 SECTION 17. Section 88-107, Hawaii Revised Statutes, is
11 amended by amending subsection (a) to read as follows:

12 "(a) The board of trustees shall annually allocate the
13 interest and other earnings of the system to the funds of the
14 system, as follows:

15 (1) The annuity savings fund shall be credited with the
16 applicable amount of regular interest credited to

17 [members' accounts,] each member's account;

18 (2) The expense fund shall be credited with such sums as
19 provided in section 88-116; and

20 (3) The remaining investment earnings, if any, shall be
21 credited to the pension accumulation fund."



1 SECTION 18. Section 88-132, Hawaii Revised Statutes, is
2 amended by amending subsection (d) to read as follows:

3 "(d) If the State or county, as the case may be, fails to
4 pay the contributions within the time specified in subsection
5 (c), the State or county, as the case may be, shall also pay to
6 the system regular interest [~~at the rate of four and one half~~
7 ~~per cent a year compounded annually~~] from the date the member
8 returned to state or county government service or the date of
9 the member's death in the performance of the member's military
10 duty until payment is made. [~~Interest~~] Regular interest paid on
11 the portion of the contributions that would have been payable by
12 the member shall be included in the member's accumulated
13 contributions."

14 SECTION 19. Commencing on January 1, 2020, the board of
15 trustees of the employees' retirement system shall conduct a
16 study to determine whether the percentage of regular interest,
17 as defined under section 88-21, Hawaii Revised Statutes, is
18 appropriate. The board shall compare that percentage against
19 the guaranteed percentage of interest paid by other investment
20 or saving vehicles during the fiscal year 2019-2020. The board
21 shall submit a report of the study to the legislature that shall
22 include a recommendation on whether the percentage of "regular



1 interest" should be changed or remain the same. The board shall
2 submit the report not less than twenty days prior to the
3 convening of the regular session of 2021.

Insert #1 ~~PART IV~~ Incorporate into Part I

5 SECTION 20. Section 88-59.5, Hawaii Revised Statutes, is
6 amended by amending subsection (a) to read as follows:

7 "(a) Any member who on July 1, 1991, was serving or
8 previously served as an assistant clerk or assistant sergeant at
9 arms of either house of the legislature and becomes eligible for
10 retirement benefits as a class A member as provided under
11 sections 88-73(a), [~~88-74(a)(3)~~] 88-74(d), and 88-76 shall be
12 entitled to full service credit as a class A member for any
13 eligible service prior to July 1, 1991; provided that:

14 (1) The member claims those years as membership service
15 credit and purchases that membership service credit in
16 accordance with section 88-59; and

17 (2) Notwithstanding any other law to the contrary:

18 (A) If the member was a class A member of the system
19 and elected to become a class C member pursuant
20 to section 88-271, the member repurchases all the
21 years of service as a class C member in
22 accordance with the procedures under section 88-



1 59 to regain standing as a contributory member;
2 and

3 (B) A class C member shall be credited for service as
4 an assistant clerk or assistant sergeant at arms
5 under section 88-59 in a lump sum nonrefundable
6 payment and receive retirement benefits as
7 provided in this section."

8 SECTION 21. Section 88-73, Hawaii Revised Statutes, is
9 amended by amending subsections (a) and (b) to read as follows:

10 "(a) Any member who:

11 (1) Became a member before July 1, 2012, and has at least
12 five years of credited service and [who] has attained
13 age fifty-five [or any member who];

14 (2) Became a member before July 1, 2012, and has at least
15 twenty-five years of credited service [or any member
16 who has];

17 (3) Has at least ten years of credited service, which
18 includes service as a judge before July 1, 1999, an
19 elective officer, or a legislative officer[-];

20 (4) Becomes a member after June 30, 2012, and has at least
21 five years of credited service and has attained age
22 sixty; or



Insert # 2

1 (5) Becomes a member after June 30, 2012, and has at least
2 twenty-five years of credited service and has attained
3 age fifty-five,

4 shall become eligible to receive a retirement allowance after
5 the member has terminated service.

6 (b) Any member who first earned credited service as a
7 judge after June 30, 1999, but before July 1, 2012, and who has
8 at least five years of credited service and has attained age
9 fifty-five or has at least twenty-five years of credited service
10 shall become eligible to receive a retirement allowance after
11 the member has terminated service. Any member who first earned
12 credited service as a judge after June 30, 2012, and has at
13 least five years of credited service and has attained age sixty
14 or has at least twenty-five years of credited service and has
15 attained age fifty-five shall be eligible to receive a
16 retirement allowance after the member has terminated service."

17 SECTION 22. Section 88-74, Hawaii Revised Statutes, is
18 amended to read as follows:

19 "§88-74 Allowance on service retirement. (a) Upon
20 retirement from service, a member shall receive a maximum
21 retirement allowance as ~~[follows]~~ provided in this section.



1 ~~(A)~~ (b) If ~~the~~ a member, who became a member before
2 July 1, 2012, has attained age fifty-five, ~~a~~ the member's
3 maximum retirement allowance ~~of~~ shall be two per cent of the
4 member's average final compensation multiplied by the total
5 number of years of the member's credited service as a class A,
6 and class B member, excluding any credited service as a judge,
7 elective officer, or legislative officer, plus a retirement
8 allowance of one and one-fourth per cent of the member's average
9 final compensation multiplied by the total number of years of
10 prior credited service as a class C member, plus a retirement
11 allowance of two per cent of the member's average final
12 compensation multiplied by the total number of years of prior
13 credited service as a class H member; provided that:

14 ~~(A)~~ (1) After June 30, 1968, if the member has at least
15 ten years of credited service of which the last five
16 or more years prior to retirement is credited service
17 as a firefighter, police officer, or an investigator
18 of the department of the prosecuting attorney;

19 ~~(B)~~ (2) After June 30, 1977, if the member has at least
20 ten years of credited service of which the last five
21 or more years prior to retirement is credited service
22 as a corrections officer;





1 ~~[+E]~~ (3) After June 16, 1981, if the member has at least
2 ten years of credited service of which the last five
3 or more years prior to retirement is credited service
4 as an investigator of the department of the attorney
5 general;

6 ~~[+D]~~ (4) After June 30, 1989, if the member has at least
7 ten years of credited service of which the last five
8 or more years prior to retirement is credited service
9 as a narcotics enforcement investigator;

10 ~~[+B]~~ (5) After December 31, 1993, if the member has at
11 least ten years of credited service of which the last
12 five or more years prior to retirement is credited
13 service as a water safety officer;

14 ~~[+F]~~ (6) After June 30, 1994, if the member has at least
15 ten years of credited service, of which the last five
16 or more years prior to retirement are credited
17 service as a public safety investigations staff
18 investigator;

19 ~~[+G]~~ (7) After June 30, 2002, if the member:

20 ~~[+i]~~ (A) Has at least ten years of credited service
21 as a firefighter;



1 ~~[(+ii)]~~ (B) Is deemed permanently medically
2 disqualified due to a service related disability
3 to be a firefighter by the employer's physician;

4 and

5 ~~[(+iii)]~~ (C) Continues employment in a class A or B
6 position other than a firefighter; and

7 ~~[(+H)]~~ (8) After June 30, 2004, if the member:

8 ~~[(+i)]~~ (A) Has at least ten years of credited service
9 as a police officer;

10 ~~[(+ii)]~~ (B) Is deemed permanently medically
11 disqualified due to a service related disability
12 to be a police officer by the employer's
13 physician; and

14 ~~[(+iii)]~~ (C) Continues employment in a class A or B
15 position other than a police officer~~[+]~~,
16 then for each year of service as a firefighter, police
17 officer, corrections officer, investigator of the
18 department of the prosecuting attorney, investigator
19 of the department of the attorney general, narcotics
20 enforcement investigator, water safety officer, or
21 public safety investigations staff investigator, the
22 retirement allowance shall be two and one-half per



1 cent of the member's average final compensation. The
2 maximum retirement allowance for those members shall
3 not exceed eighty per cent of the member's average
4 final compensation. If the member has not attained
5 age fifty-five, the member's retirement allowance
6 shall be computed as though the member had attained
7 age fifty-five, reduced for age as provided in
8 subsection ~~[(b)]~~ (e).

9 ~~[(2)]~~ (c) If [the] a member, who became a member prior to
10 July 1, 2012, has credited service as a judge, the member's
11 retirement allowance shall be computed on the following basis:

12 ~~[(A)]~~ (1) For a member who has credited service as a judge
13 before July 1, 1999, irrespective of age, for each
14 year of credited service as a judge, three and one-
15 half per cent of the member's average final
16 compensation in addition to an annuity that is the
17 actuarial equivalent of the member's accumulated
18 contributions allocable to the period of service;

19 [and

20 ~~[(B)]~~ (2) For a member who first earned credited service
21 as a judge after June 30, 1999, for each year of
22 credited service as a judge, three and one-half per



1 cent of the member's average final compensation in
 2 addition to an annuity that is the actuarial
 3 equivalent of the member's accumulated contributions
 4 allocable to the period of service. If the member
 5 has not attained age fifty-five, the member's
 6 retirement allowance shall be computed as though the
 7 member had attained age fifty-five, reduced for age
 8 as provided in subsection ~~[(b), or]~~ (e);

9 ~~[(c)]~~ (3) For a member who first earned credited service
 10 as a judge after June 30, 2012, for each year of
 11 credited service as a judge, three and one-half per
 12 cent of the member's average final compensation in
 13 addition to an annuity that is the actuarial
 14 equivalent of the member's accumulated contributions
 15 allocable to the period of service. If the member
 16 has not attained age sixty, the member's retirement
 17 allowance shall be computed as though the member had
 18 attained age sixty, reduced for age as provided in
 19 subsection (i); or

20 (4) For a judge with other credited service, as provided
 21 in ~~paragraph (1)-]~~ subsection (b). If the member
 22 has not attained age fifty-five, the member's



1 retirement allowance shall be computed as though the
2 member had attained age fifty-five, reduced for age
3 as provided in subsection ~~[(b)+]~~ (e); or

4 ~~[(+)]~~ (5) For a judge with credited service as an elective
5 officer or as a legislative officer, as provided in
6 ~~[paragraph (3)-.]~~ subsection (d).

7 No allowance shall exceed seventy-five per cent of the member's
8 average final compensation. If the allowance exceeds this
9 limit, it shall be adjusted by reducing the annuity included in
10 ~~[subparagraphs (A) and (B)]~~ paragraphs (1), (2), and (3) and the
11 portion of the accumulated contributions specified in ~~[the~~
12 ~~subparagraphs]~~ paragraphs (1), (2), and (3) in excess of the
13 requirements of the reduced annuity shall be returned to the
14 member upon the member's retirement or paid to the member's
15 designated beneficiary upon the member's death while in service
16 or while on authorized leave without pay. The allowance for
17 judges under this paragraph, together with the retirement
18 allowance provided by the federal government for similar
19 service, shall in no case exceed seventy-five per cent of the
20 member's average final compensation~~[+or]~~.

21 ~~[(+)]~~ (d) If ~~[the]~~ a member, who became a member before
22 July 1, 2012, has credited service as an elective officer or as



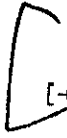
1 a legislative officer, the member's retirement allowance shall
2 be derived by adding the allowances computed separately under
3 ~~[subparagraphs (A), (B), (C), and (D)]~~ paragraphs (1), (2), (3),
4 and (4) as follows:

5 ~~[(A)]~~ (1) Irrespective of age, for each year of credited
6 service as an elective officer, three and one-half
7 per cent of the member's average final compensation
8 as computed under section 88-81(e)(1), in addition to
9 an annuity that is the actuarial equivalent of the
10 member's accumulated contributions allocable to the
11 period of service; and

12 ~~[(B)]~~ (2) Irrespective of age, for each year of credited
13 service as a legislative officer, three and one-half
14 per cent of the member's average final compensation
15 as computed under section 88-81(e)(2), in addition to
16 an annuity that is the actuarial equivalent of the
17 member's accumulated contributions allocable to the
18 period of service;

19 ~~[(C)]~~ (3) If the member has credited service as a judge,
20 the member's retirement allowance shall be computed
21 on the following basis:





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~~[(i)]~~ (A) For a member who has credited service as a judge before July 1, 1999, irrespective of age, for each year of credited service as a judge, three and one-half per cent of the member's average final compensation as computed under section 88-81(e) (3), in addition to an annuity that is the actuarial equivalent of the member's accumulated contributions allocable to the period of service; and

~~[(ii)]~~ (B) For a member who first earned credited service as a judge after June 30, 1999, and has attained the age of fifty-five, for each year of credited service as a judge, three and one-half per cent of the member's average final compensation as computed under section 88-81(e) (3), in addition to an annuity that is the actuarial equivalent of the member's accumulated contributions allocable to the period of service. If the member has not attained age fifty-five, the member's retirement allowance shall be computed as though the member had

1 attained age fifty-five, reduced for age as
2 provided in subsection ~~[(b)]~~ (e); and
3 ~~[(B)]~~ (4) For each year of credited service not included
4 in ~~[subparagraph (A), (B), or (C)]~~ paragraph (1),
5 (2), or (3), the average final compensation as
6 computed under section 88-81(e)(4) shall be
7 multiplied by two per cent for credited service
8 earned as a class A or class H member, two and one-
9 half per cent for credited service earned as a class
10 B member, and one and one-quarter per cent for
11 credited service earned as a class C member. If the
12 member has not attained age fifty-five, the member's
13 retirement allowance shall be computed as though the
14 member had attained age fifty-five, reduced for age
15 as provided in subsection ~~[(b)]~~ (e).

16 The total retirement allowance shall not exceed seventy-five per
17 cent of the member's highest average final compensation
18 calculated under section 88-81(e)(1), (2), (3), or (4). If the
19 allowance exceeds this limit, it shall be adjusted by reducing
20 any annuity accrued under ~~[subparagraphs (A), (B), and (C)]~~
21 paragraphs (1), (2), and (3) and the portion of the accumulated
22 contributions specified in these ~~[subparagraphs]~~ paragraphs in



1 excess of the requirements of the reduced annuity shall be
2 returned to the member upon the member's retirement or paid to
3 the member's designated beneficiary upon the member's death
4 while in service or while on authorized leave without pay. If a
5 member has service credit as an elective officer or as a
6 legislative officer in addition to service credit as a judge,
7 then the retirement benefit calculation contained in this
8 ~~[paragraph]~~ subsection shall supersede the formula contained in
9 ~~[paragraph (2)]~~ subsection (c).

10 ~~[(b)]~~ (e) Except as provided in ~~[subsection (a)]~~
11 subsections (b), (c), and (d), if a member, who became a member
12 before July 1, 2012, has not attained age fifty-five at the date
13 of retirement, the member's retirement allowance shall be
14 reduced, for each month the member's age at the date of
15 retirement is below age fifty-five, as follows:

- 16 (1) 0.4166 per cent for each month below age fifty-five
17 and above age forty-nine and eleven months; plus
18 (2) 0.3333 per cent for each month below age fifty and
19 above age forty-four and eleven months; plus
20 (3) 0.2500 per cent for each month below age forty-five
21 and above age thirty-nine and eleven months; plus
22 (4) 0.1666 per cent for each month below age forty;



1 provided that no reduction shall be made if the member has at
2 least twenty-five years of credited service as a firefighter,
3 police officer, corrections officer, investigator of the
4 department of the prosecuting attorney, investigator of the
5 department of the attorney general, narcotics enforcement
6 investigator, public safety investigations staff investigator,
7 sewer worker, or water safety officer, of which the last five or
8 more years prior to retirement is credited service in these
9 capacities.

10 (f) If a member, who becomes a member after June 30, 2012,
11 has attained age sixty, the member's maximum retirement
12 allowance shall be two per cent of the member's average final
13 compensation multiplied by the total number of years of the
14 member's credited service as a class A and class B member,
15 excluding any credited service as a judge, elective officer, or
16 legislative officer, plus a retirement allowance of one and one-
17 fourth per cent of the member's average final compensation
18 multiplied by the total number of years of prior credited
19 service as a class C member, plus a retirement allowance of two
20 per cent of the member's average final compensation multiplied
21 by the total number of years of prior credited service as a
22 class H member; provided that:



- 1 (1) If the member has at least ten years of credited
2 service of which the last five or more years prior to
3 retirement is credited service as a firefighter,
4 police officer, or an investigator of the department
5 of the prosecuting attorney;
- 6 (2) If the member has at least ten years of credited
7 service of which the last five or more years prior to
8 retirement is credited service as a corrections
9 officer;
- 10 (3) If the member has at least ten years of credited
11 service of which the last five or more years prior to
12 retirement is credited service as an investigator of
13 the department of the attorney general;
- 14 (4) If the member has at least ten years of credited
15 service of which the last five or more years prior to
16 retirement is credited service as a narcotics
17 enforcement investigator;
- 18 (5) If the member has at least ten years of credited
19 service of which the last five or more years prior to
20 retirement is credited service as a water safety
21 officer;



1 (6) If the member has at least ten years of credited
2 service, of which the last five or more years prior to
3 retirement are credited service as a public safety
4 investigations staff investigator;

5 (7) If the member:

6 (A) Has at least ten years of credited service as a
7 firefighter;

8 (B) Is deemed permanently medically disqualified due
9 to a service related disability to be a
10 firefighter by the employer's physician; and

11 (C) Continues employment in a class A or B position
12 other than a firefighter;

13 and

14 (8) If the member:

15 (A) Has at least ten years of credited service as a
16 police officer;

17 (B) Is deemed permanently medically disqualified due
18 to a service related disability to be a police
19 officer by the employer's physician; and

20 (C) Continues employment in a class A or B position
21 other than a police officer,



1 then for each year of service as a firefighter, police officer,
2 corrections officer, investigator of the department of the
3 prosecuting attorney, investigator of the department of the
4 attorney general, narcotics enforcement investigator, water
5 safety officer, or public safety investigations staff
6 investigator, the retirement allowance shall be two and one-half
7 per cent of the member's average final compensation. The
8 maximum retirement allowance for those members shall not exceed
9 eighty per cent of the member's average final compensation. If
10 the member has not attained age sixty, the member's retirement
11 allowance shall be computed as though the member had attained
12 age sixty, reduced for age as provided in subsection (i).

13 (g) If a member, who became a member after June 30, 2012,
14 has credited service as a judge, the member's retirement
15 allowance shall be computed on the following basis:

16 (1) For each year of credited service as a judge, three
17 and one-half per cent of the member's average final
18 compensation in addition to an annuity that is the
19 actuarial equivalent of the member's accumulated
20 contributions allocable to the period of service. If
21 the member has not attained age sixty, the member's
22 retirement allowance shall be computed as though the



1 member had attained age sixty, reduced for age as
2 provided in subsection (i);

3 (2) For a judge with other credited service, as provided
4 in subsection (f) or (h), as applicable. If the
5 member has not attained age sixty, the member's
6 retirement allowance shall be computed as though the
7 member had attained age sixty, reduced for age as
8 provided in subsection (i); and

9 (3) For a judge with credited service as an elective
10 officer or as a legislative officer, as provided in
11 subsection (h).

12 No allowance shall exceed seventy-five per cent of the member's
13 average final compensation. If the allowance exceeds this
14 limit, it shall be adjusted by reducing the annuity included in
15 paragraph (1) and the portion of the accumulated contributions
16 specified in paragraph (1) in excess of the requirements of the
17 reduced annuity shall be returned to the member upon the
18 member's retirement or paid to the member's designated
19 beneficiary upon the member's death while in service or while on
20 authorized leave without pay. The allowance for judges under
21 this subsection, together with the retirement allowance provided
22 by the federal government for similar service, shall in no case



1 exceed seventy-five per cent of the member's average final
2 compensation.

3 (h) If a member, who becomes a member after June 30, 2012,
4 has credited service as an elective officer or as a legislative
5 officer, the member's retirement allowance shall be derived by
6 adding the allowances computed separately under paragraphs (1),
7 (2), (3), and (4) as follows:

8 (1) Irrespective of age, for each year of credited service
9 as an elective officer, three and one-half per cent of
10 the member's average final compensation as computed
11 under section 88-81, in addition to an annuity that is
12 the actuarial equivalent of the member's accumulated
13 contributions allocable to the period of service;

14 (2) Irrespective of age, for each year of credited service
15 as a legislative officer, three and one-half per cent
16 of the member's average final compensation as computed
17 under section 88-81, in addition to an annuity that is
18 the actuarial equivalent of the member's accumulated
19 contributions allocable to the period of service;

20 (3) Irrespective of age, for each year of credited service
21 as a judge, three and one-half per cent of the
22 member's average final compensation as computed under



1 section 88-81, in addition to an annuity that is the
2 actuarial equivalent of the member's accumulated
3 contributions allocable to the period of service; and
4 (4) For each year of credited service not included in
5 paragraph (1), (2), or (3), the average final
6 compensation as computed under section 88-81 shall be
7 multiplied by two per cent for credited service earned
8 as a class A or class H member, two and one-half per
9 cent for credited service earned as a class B member,
10 and one and one-quarter per cent for credited service
11 earned as a class C member. If the member has not
12 attained age sixty, the member's retirement allowance
13 shall be computed as though the member had attained
14 age sixty, reduced for age as provided in subsection
15 (i).

16 The total retirement allowance shall not exceed seventy-five per
17 cent of the member's highest average final compensation
18 calculated under section 88-81(e). If the allowance exceeds
19 this limit, it shall be adjusted by reducing any annuity accrued
20 under paragraphs (1), (2), and (3) and the portion of the
21 accumulated contributions specified in these paragraphs in
22 excess of the requirements of the reduced annuity shall be



1 returned to the member upon the member's retirement or paid to
2 the member's designated beneficiary upon the member's death
3 while in service or while on authorized leave without pay. If a
4 member has service credit as an elective officer or as a
5 legislative officer in addition to service credit as a judge,
6 then the retirement benefit calculation contained in this
7 subsection shall supersede the formula contained in subsection
8 (g).

9 (i) Except as provided in subsections (f), (g), and (h),
10 if a member, who becomes a member after June 30, 2012, has not
11 attained age sixty at the date of retirement, the member's
12 retirement allowance shall be reduced, for each month the
13 member's age at the date of retirement is below age sixty, as
14 follows:

- 15 (1) 0.4166 per cent for each month below age sixty and
16 above age fifty-four and eleven months; plus
17 (2) 0.3333 per cent for each month below age fifty-five
18 and above age forty-nine and eleven months; plus
19 (3) 0.2500 per cent for each month below age fifty and
20 above age forty-four and eleven months; plus
21 (4) 0.1666 per cent for each month below age forty-five;



1 provided that no reduction shall be made if the member has at
2 least twenty-five years of credited service as a firefighter,
3 police officer, corrections officer, investigator of the
4 department of the prosecuting attorney, investigator of the
5 department of the attorney general, narcotics enforcement
6 investigator, public safety investigations staff investigator,
7 sewer worker, water safety officer, or emergency medical
8 technician, of which the last five or more years prior to
9 retirement is credited service in these capacities, and has
10 attained the age of fifty-five."

11 SECTION 23. Section 88-74.6, Hawaii Revised Statutes, is
12 amended to read as follows:

13 "§88-74.6 **Unreduced allowance on service retirement; when**
14 **applicable.** In addition to those positions identified in
15 section [~~88-74(b)~~] 88-74(e) and notwithstanding any law in this
16 part that requires a member to attain age fifty-five to qualify
17 for an unreduced service retirement allowance, if ~~the~~ a
18 member, who became a member before July 1, 2012, has at least
19 [thirty]:

20 (1) Thirty years of credited service through June 30,

21 2003; [~~twenty-nine~~]



- 1 (2) Twenty-nine years of credited service on or after July
- 2 1, 2004; [~~twenty-eight~~]
- 3 (3) Twenty-eight years of credited service on or after
- 4 July 1, 2005; [~~twenty-seven~~]
- 5 (4) Twenty-seven years of credited service on or after
- 6 July 1, 2006; [~~twenty-six~~]
- 7 (5) Twenty-six years of credited service on or after July
- 8 1, 2007; [~~and twenty-five~~] or
- 9 (6) Twenty-five years of credited service on or after July
- 10 1, 2008,

11 as an emergency medical technician, of which the last five or
 12 more years prior to retirement is credited service in that
 13 capacity, then upon retirement and irrespective of age, that
 14 member's service retirement allowance shall not be reduced for
 15 actuarial purposes."

Insert # 4

16 SECTION 24. Section 88-76, Hawaii Revised Statutes, is
 17 amended to read as follows:

18 "**§88-76 Allowance on ordinary disability retirement.** Upon
 19 retirement for ordinary disability, a member shall receive a
 20 maximum retirement allowance of one and three-fourths per cent
 21 of the member's average final compensation for each year of
 22 credited service; except that for each year of credited service

1 as a judge, an elective officer, or a legislative officer, the
 2 member shall receive a maximum retirement allowance computed as
 3 provided in section ~~[88-74(a)(2) or (3)]~~ 88-74(c), or (d), as ^{(g), or (h)}
 4 applicable. The minimum retirement allowance payable under this
 5 section shall be thirty per cent of the member's average final
 6 compensation."

7 SECTION 25. Section 88-331, Hawaii Revised Statutes, is
 8 amended as follows:

9 1. By amending subsections (a) and (b) to read:

10 "(a) A class H member who:

11 (1) Became a member before July 1, 2012, and has at least
 12 five years of credited service and has attained age
 13 sixty-two ~~[, or a class H member with];~~

14 (2) Became a member before July 1, 2012, and has at least
 15 thirty years credited service ~~[who]~~ and has attained
 16 the age of fifty-five;

17 (3) Becomes a member after June 30, 2012, and has at least
 18 five years of credited service and has attained age
 19 sixty-five; or **Insert #5**

20 **T** (4) Becomes a member after June 30, 2012, and has at least
 21 thirty years of credited service and has attained age
 22 **L** sixty,



Insert #6

shall become eligible to receive a retirement allowance after the member has terminated service.

(b) A class H member who became a member before July 1, 2012, and has at least twenty-five years of credited service as a sewer worker or water safety officer, of which the last five or more years prior to retirement is credited service in that capacity, shall become eligible to receive a retirement allowance unreduced for age after the member has terminated service. A class H member who becomes a member after June 30, 2012, and has at least twenty-five years of credited service as a sewer worker or water safety officer, of which the last five or more years prior to retirement is credited service in that capacity, and has attained age fifty-five shall become eligible to receive a retirement allowance unreduced for age after the member has terminated service."

2. By amending subsection (d) to read:

"(d) If a class H member, who became a member before July 1, 2012, has at least twenty-eight years of credited service on or after July 1, 2005; twenty-seven years of credited service on or after July 1, 2006; twenty-six years of credited service on or after July 1, 2007; and twenty-five years of credited service on or after July 1, 2008, as an emergency medical technician, of



1 which the last five or more years prior to retirement is
 2 credited service in that capacity, the member shall be eligible
 3 to receive a retirement benefit unreduced for age after the
 4 member has terminated service. If a class H member, who becomes
 5 a member after June 30, 2012, has at least twenty-five years of
 6 credited service as an emergency medical technician, of which
 7 the last five or more years prior to retirement is credited
 8 service in that capacity, and has attained age fifty-five, the
 9 member shall be eligible to receive a retirement benefit
 10 unreduced for age after the member has terminated service."

11 SECTION 26. Section 88-332, Hawaii Revised Statutes, is
 12 amended to read as follows:

13 "§88-332 Service retirement allowance. (a) Upon
 14 retirement from service, a class H member who became a member
 15 before July 1, 2012, shall receive a maximum retirement
 16 allowance as follows:

- 17 (1) If the member has met the requirements in section 88-
- 18 331(a), (b), or (d), a maximum retirement allowance of
- 19 two per cent of the average final compensation
- 20 multiplied by the number of years of class H credited
- 21 service, plus a retirement allowance at the rate of
- 22 one and one-fourth per cent of the member's average



1 final compensation multiplied by the number of years
2 of class C credited service; or

3 (2) If the member has met the requirements in section 88-
4 331(c), an early retirement allowance equal to the
5 maximum retirement allowance calculated as provided in
6 paragraph (1), reduced by 0.4166 per cent for each
7 month the member is less than age sixty-two at
8 retirement.

9 (b) Upon retirement from service, a class H member who
10 becomes a member after June 30, 2012, shall receive a maximum
11 retirement allowance as follows:

12 (1) If the member has met the requirements in section 88-
13 331(a), (b), or (d), a maximum retirement allowance of
14 two per cent of the average final compensation
15 multiplied by the number of years of class H credited
16 service, plus a retirement allowance at the rate of
17 one and one-fourth per cent of the member's average
18 final compensation multiplied by the number of years
19 of class C credited service; or

20 (2) If the member has met the requirements in section 88-
21 331(c), an early retirement allowance equal to the
22 maximum retirement allowance calculated as provided in



1 paragraph (1), reduced by 0.4166 per cent for each
 2 month the member is less than age sixty-five at
 3 retirement."

~~PART~~ PART IV

5 SECTION 27. Section 88-105, Hawaii Revised Statutes, is
6 amended by amending subsection (a) to read as follows:

7 "(a) At least once in each five-year period, commencing
 8 with fiscal year 1994-1995, the actuary shall make an actuarial
 9 investigation of the experience of the system and shall
 10 recommend to the board of trustees the adoption for actuarial
 11 valuation of the system of mortality, service, and other
 12 assumptions, factors, and tables as shall be deemed appropriate
 13 and necessary[, ~~and the actuary shall recommend to the~~
 14 ~~legislature for its adoption the investment yield rate)]. The
 15 actuary shall further recommend the acceptable funded ratio for
 16 the system, taking into consideration the guaranties of article
 17 XVI, section 2 of the state constitution, section 88-107, and
 18 section 88-127."~~

19 SECTION 28. Section 88-122, Hawaii Revised Statutes, is
20 amended by amending subsection (b) to read as follows:

21 "(b) The actuarial valuations [~~made for years after June~~
 22 ~~30, 1999,~~] shall be based on [~~an eight per cent investment yield~~

1 ~~rate, salary increase assumptions adopted by the board on the~~
2 ~~recommendation of the actuary described under section 88-30,~~
3 ~~and] the contribution rates approved by the legislature, and the~~
4 ~~tables, [~~contribution rates,~~ assumptions, and factors adopted~~
5 ~~by the board [or legislature] for actuarial valuations of the~~
6 ~~system[, ~~subject to recommendations made by the actuary~~~~
7 ~~appointed under section 88-29.]; provided that the investment~~
8 ~~yield rate assumption for the year ending June 30, 2011, shall~~
9 ~~be seven and three-quarters per cent.~~"

10 ~~PART I~~ PART V ✓

11 SECTION 29. Statutory material to be repealed is bracketed
12 and stricken. New statutory material is underscored.

13 SECTION 30. This Act shall take effect on July 1, 2011;
14 provided that ~~part I shall take effect on July 1, 2012, and part~~
15 IV shall take effect on June 30, 2011.



Report Title:

Employees' Retirement System

Description:

Makes various revisions to the employees' retirement system.
Effective July 1, 2011. (HB1038 HD2)

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.



DEPARTMENT OF BUDGET & FISCAL SERVICES
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PETER B. CARLISLE
MAYOR



MICHAEL R. HANSEN
DIRECTOR

March 22, 2011

The Honorable Karl Rhoads, Chair
and Members of the Committee on Labor
and Public Employment
The House of Representatives
State Capitol
Honolulu, Hawaii 96813

Dear Chair Rhoads and Members:

Subject: Senate Bill Nos. 1269, SD2 and 1341, SD2
Relating to Employees' Retirement System

The City and County of Honolulu (City) is well aware of the serious challenges the Retirement System is facing and recognizes the need for significant course corrections. The City views Senate Bills 1269, Senate Draft 2 and 1341, Senate Draft 2, as part of a package of bills proposing changes aimed at addressing the Retirement System's unfunded liability. **The City supports these bills as a collective package designed to address the unfunded liability issue in a comprehensive manner—with reasonable changes to benefits as is proposed by these bills and increases in the Employer contribution rate.**

The changes included in these bills, which will reduce (and eventually eliminate) overtime in pension calculations, and will update the benefits structure making it more realistic and sustainable are essential to reforming the system. We also recognize increases in the Employer contributions are a necessary element in this comprehensive reform effort. We are on record as supporting these increases even though we know they will have a severe negative impact on our budget. The adoption of all these changes will, we hope, ultimately result in a system that is more stable and Employer costs that are more predictable.

The Honorable Karl Rhoads, Chair
and Members of the Committee on Labor
and Public Employment
The House of Representatives
March 22, 2011
Page 2

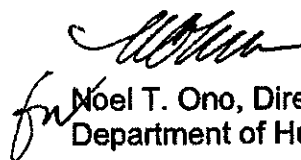
We realize this Committee is facing very difficult decisions on many matters, including this one. We urge the Committee to take the comprehensive approach needed to set the Retirement System on a sustainable path.

Thank you for the opportunity to testify on this measure.

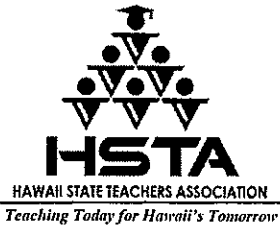
Yours truly,



Michael R. Hansen, Director
Department of Budget & Fiscal Services



Noel T. Ono, Director
Department of Human Resources



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Executive Director

**TESTIMONY BEFORE THE HOUSE COMMITTEE ON
LABOR & PUBLIC EMPLOYMENT**

**RE: SB 1341, SD2 – RELATING TO THE EMPLOYEES' RETIREMENT
SYSTEM.**

Tuesday, March 22, 2011

**WIL OKABE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION**

Chair Rhoads and Members of the Committee:

The Hawaii State Teachers Association opposes SB1341, SD2. We agree that this bill, submitted on behalf of the Employees' Retirement System, is done with the members' and future members' interests at heart to ensure the continuation of a sound and viable retirement system.

However, we feel that the increased amount in contributions will be very costly to current and future employees of our state. Changing the terms and conditions of compensation at the time of retirement will significantly reduce a retiree's pension. The effect of these changes may result in our work force having to work longer to attain a monthly retirement that they will be able to live on.

This bill will negatively impact the future of Hawaii's ability to attract and retain highly qualified teachers. With Hawaii's high cost of living, our future teacher work force will look at other career opportunities both in and outside of Hawaii.

For reasons stated, we oppose SB 1341, SD2, and we urge this committee to reassess the action of this bill.

Thank you for the opportunity to submit testimony.



46-063 Emepela Pl. #U101 Kaneohe, HI 96744 · (808) 679-7454 · Kris Coffield · Co-founder/Legislative Director

TESTIMONY ON SENATE BILL 1341, SENATE DRAFT 2, RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

House Committee on Labor and Public Employment

Hon. Karl Rhoads, Chair

Hon. Kyle T. Yamashita, Vice Chair

Tuesday, March 22, 2011, 10:00 AM

State Capitol, Conference Room 309

Honorable Chair Rhoads and committee members:

I am Kris Coffield, representing the Imua Alliance, a nonpartisan political advocacy organization that currently boasts over 60 local members. On behalf of our members, we offer this testimony in support of SB 1341, SD2, relating to the Employees' Retirement System.

As of today, the Employees' Retirement System (ERS) is facing a \$7.1 billion shortfall, with an additional \$1.5 billion deficit being added to the underfunded liability over the next two years because of market losses resulting from the recent recession. Within four years, the state's legally required contribution to the pension system is expected to top \$650 million, yet the funding ratio for ERS has declined, by most measures, to approximately 60 percent. Coevally, the pension fund portfolio's average rate of return has dipped to 2.8 percent over the past decade, far short of the 8 percent mandated by state law.

To offset the disparity between current contributions and contracted benefits, the state is selling an increasingly large share of its pension-related assets. As an investigation of the problem by *Hawaii Business Magazine* revealed, last month, the ERS is set to cannibalize approximately \$200 million in assets, in 2011, and potentially \$600 million a year—or more—by the end of the decade, if nothing is done to stem the bleeding. The actuarially required contribution, which calls for the system to be fully funded within 30 years despite expanding lifespans and payrolls, already equals nearly 10 percent of the state's general fund budget, reaching \$400 million for state employers, in 2010. Without implementing precautionary measures, the underfunded liability will only continue to grow.

Thus, it is imperative that compensation calculations be revised to comport with today's financial challenges, including alterations to the retirement age, average final compensation period, vesting period, and employee contribution rate. If enacted, these changes, all of which are encompassed in SB 1341, SD2, will result in an estimated \$547 million in cost savings over the next five fiscal years (FY

2012-2016), subsequently securing employer contribution rates at 17 percent for general employees and 25 percent for police and firefighters by fiscal year 2017. Currently, employer contributions stand at 15 percent for general employees and 19.7 percent for police officers and firefighters, but the fund's amortization period still exceeds 30 years. According to Wesley Machida, the ERS administrator, rates would need to be raised, by next year, to 17 percent and 25 percent, respectively, for the amortization period to once again comport with statutory prescriptions, in the absence of legislative action, with actuaries who have reported on the problem suggesting ensuing elevation to rates as high as 19 percent and 27.3 percent within five years, a move that seems politically and economically untenable, given the impact upon both public and personal pocketbooks of the ongoing credit crunch. All that is left, then, is to restructure future benefits to bring payments into consonance with the state's budgetary limitations, while continuing to provide an entitlement package that rewards the service of prospective retirees.

Mahalo for the opportunity to testify in support of this bill.

Sincerely,
Kris Coffield
Legislative Director
IMUAlliance