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A BILL FOR AN ACT

RELATING TO THE DEFINITION OF COMPENSATION FOR PURPOSES OF THE  
EMPLOYEES' RETIREMENT SYSTEM.

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

1 SECTION 1. Section 88-21.5, Hawaii Revised Statutes, is  
2 amended to read as follows:

3 "**§88-21.5 Employee contributions.** [~~Unless~~] (a) For  
4 service before July 1, 2011, unless a different meaning is  
5 plainly required by context, as used in this part,  
6 "compensation" means normal periodic payments of money for  
7 service the right to which accrues on a regular basis in  
8 proportion to the service performed; overtime, differentials,  
9 and supplementary payments; bonuses and lump sum salary  
10 supplements; and elective salary reduction contributions under  
11 sections 125, 403(b), and 457(b) of the Internal Revenue Code of  
12 1986, as amended. Bonuses and lump sum salary supplements shall  
13 be deemed earned when payable; provided that bonuses or lump sum  
14 salary supplements in excess of one-twelfth of compensation for  
15 the twelve months prior to the month in which the bonus or lump  
16 sum salary supplement is payable, exclusive of overtime,  
17 bonuses, and lump sum salary supplements, shall be deemed  
18 earned:

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1 (1) During the period agreed-upon by the employer and  
2 employee, but in any event over a period of not less  
3 than twelve months; or

4 (2) In the absence of an agreement between the employer  
5 and the employee, over the twelve months prior to the  
6 date on which the bonus or lump sum salary supplement  
7 is payable.

8 (b) For service after June 30, 2011, unless a different  
9 meaning is plainly required by context, as used in this part,  
10 "compensation" means normal periodic payments of money for  
11 services performed, the right to which accrues on an hourly,  
12 daily, monthly, or annual basis; shortage differentials; and  
13 elective salary reduction contributions under sections 125,  
14 403(b), and 457(b) of the Internal Revenue Code of 1986, as  
15 amended. "Compensation" does not include any other additional  
16 or extra payments to an employee or officer, including, but not  
17 limited to, overtime, bonuses, lump sum salary supplements,  
18 allowances, or differentials, including, but not limited to,  
19 differentials for stand-by duty, temporary unusual work hazards,  
20 compression differentials, or temporary differentials."

21 SECTION 2. Statutory material to be repealed is bracketed  
22 and stricken. New statutory material is underscored.

23 SECTION 3. This Act shall take effect on July 1, 2011;  
24 provided that with respect to individuals who became members of

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1 the employees' retirement system of the State of Hawaii before  
2 July 1, 2011, the member's benefits accrued up to June 30, 2011,  
3 shall not be diminished or impaired.

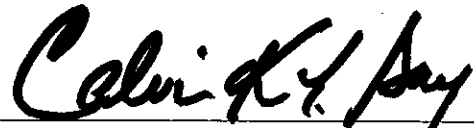
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INTRODUCED BY:



BY REQUEST

JAN 24 2011

**Report Title:**

Employees' Retirement System; Calculation of Retirement Benefits

**Description:**

Amends the definition of "compensation" for the purpose of calculating retirement benefits.

JUSTIFICATION SHEET

DEPARTMENT: Budget and Finance

TITLE: A BILL FOR AN ACT RELATING TO THE DEFINITION OF COMPENSATION FOR PURPOSES OF THE EMPLOYEES' RETIREMENT SYSTEM.

PURPOSE: To amend the definition of "compensation" for the purposes of calculating retirement benefits.

MEANS: Amend section 88-21.5, Hawaii Revised Statutes.

JUSTIFICATION: The present practice of including overtime and other adjustments to an employee's base pay artificially inflates retirement benefits when the employee retires.

The bill corrects this by excluding overtime, bonuses, lump sum salary supplements, and differentials from "compensation" for the purposes of determining retirement benefits.

Impact on the public: None.

Impact on the department and other agencies: None.

GENERAL FUND: As a result of the change, the State would no longer be required to pay the 15% assessment on the total covered payroll amounts. The assessment would instead be made on the base salaries without overtime and other salary enhancements resulting in general fund savings.

OTHER FUNDS: None.

PPBS PROGRAM DESIGNATION: BUF 141.

OTHER AFFECTED

AGENCIES: All Executive Branch agencies, the State  
Judiciary and all the counties in the State.

EFFECTIVE DATE: This Act shall take effect on July 1, 2011.