
A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

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

1 SECTION 1. The legislature finds that some public
2 employees, near the end of their careers, seek to increase the
3 average final compensation upon which their retirement
4 allowances are computed by working more overtime. The resultant
5 retirement allowances that are enhanced by overtime pay do not
6 actuarially reflect the contributions made by and for the
7 employees during their careers.

8 This Act requires the State and counties to pay greater
9 contribution rates on their employees' non-base compensation
10 than on base compensation. The increased employer contributions
11 are to commence from fiscal year 2013-2014.

12 This Act does not change the employer contribution rates
13 for the base compensation of employees.

14 This Act is intended to require the employers to make
15 contributions on employees' non-base compensation that better
16 reflect the employees' retirement allowances.

17 This Act is also intended to place the burden on the
18 employers, rather than the employees' retirement system, to pay



1 for the portion of employees' retirement allowances attributed
2 to non-base compensation. At present, when employees'
3 retirement allowances are actuarially greater than their
4 accumulated contributions, the excess allowance portion must be
5 paid from the earnings of the system.

6 This Act does not increase the employees' contribution
7 rates on non-base compensation. In this regard, the legislature
8 notes that the amendments made by this Act to sections 88-46(a)
9 and 88-326(a), Hawaii Revised Statutes, are technical only.

10 The purpose of this Act is to require that retirement
11 allowances for public employees actuarially reflect the
12 contributions made by and for the employees during their
13 careers.

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

16 "~~§88-21.5 Compensation[-],~~ base compensation, non-base
17 compensation. Unless a different meaning is plainly required by
18 context, as used in this [~~part,~~] chapter:

19 [~~"compensation"~~] "Base compensation" means normal periodic
20 payments of money to an employee for service, the right to which
21 accrues on a regular basis in proportion to the service
22 performed[+].



1 "Compensation" means the sum of the "base compensation" and
2 "non-base compensation" paid to an employee.

3 "Non-base compensation" means payments of the following to
4 an employee: overtime, differentials, and supplementary
5 payments; bonuses and lump sum salary supplements; and elective
6 salary reduction contributions under sections 125, 403(b), and
7 457(b) of the Internal Revenue Code of 1986, as amended.

8 Bonuses and lump sum salary supplements shall be deemed earned
9 when payable; provided that bonuses or lump sum salary
10 supplements in excess of one-twelfth of compensation for the
11 twelve months prior to the month in which the bonus or lump sum
12 salary supplement is payable, exclusive of overtime, bonuses,
13 and lump sum salary supplements, shall be deemed earned:

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

17 (2) In the absence of an agreement between the employer
18 and the employee, over the twelve months prior to the
19 date on which the bonus or lump sum salary supplement
20 is payable."

21 SECTION 3. Section 88-46, Hawaii Revised Statutes, is
22 amended as follows:



1 1. By amending its title to read:

2 "§88-46 **Deducting employee contributions from [salary]**
3 **compensation and employer pick up of employee contributions.**"

4 2. By amending subsection (a) to read:

5 "(a) The head of each state department and the finance
6 director of each county shall deduct from the compensation of
7 each class A or class B member on each and every payroll under
8 their respective jurisdiction, the percentage of compensation of
9 each member as provided under section 88-45. The total amount
10 of deductions made from the [~~salaries~~] compensation of employees
11 and a record of the amount deducted from each member's
12 compensation shall be transmitted to the system monthly or at
13 such other times as may be agreed upon by the board of trustees.
14 The amounts deducted shall be paid into the annuity savings fund
15 and shall be credited to the individual account of the member
16 from whose compensation the deductions were made. Regular
17 interest shall also be credited to the individual account of the
18 member in the annuity savings fund."

19 SECTION 4. Section 88-122, Hawaii Revised Statutes, is
20 amended to read as follows:

21 "§88-122 **Determination of employer normal cost and accrued**
22 **liability contributions.** (a) Based on regular interest and



1 such mortality and other tables as are adopted by the board of
2 trustees, the actuary engaged by the board, on the basis of
3 successive annual actuarial valuations, shall determine the
4 employer's normal cost and accrued liability contributions for
5 each fiscal year beginning July 1 separately for the following
6 two groups of employees:

7 (1) Police officers, firefighters, and corrections
8 officers; and

9 (2) All other employees.

10 (b) The actuarial valuations shall be based on the
11 contribution rates approved by the legislature, and the tables,
12 assumptions, and factors adopted by the board for actuarial
13 valuations of the system; provided that the investment yield
14 rate assumption for the year ending June 30, 2011, shall be
15 seven and three-quarters per cent.

16 (c) With respect to each of the two groups of employees in
17 subsection (a), the normal cost for each year after June 30,
18 1994, shall be the percentage of the aggregate annual
19 compensation of employees as of March 31 of the valuation year
20 as determined by the actuary using the entry age normal cost
21 funding method. On each June 30 the board shall determine the
22 allocation of the assets of the pension accumulation fund



1 between the two groups of employees in subsection (a); provided
2 that the assets of the pension accumulation fund as of June 30,
3 1976, shall be allocated between the two groups in the same
4 proportion as the aggregate annual compensation of each group as
5 of March 31, 1976.

6 (d) Commencing with fiscal year 1994-1995 and each
7 subsequent fiscal year, the actuary shall determine the total
8 unfunded accrued liability using the entry age normal cost
9 funding method separately for each of the two groups of
10 employees in subsection (a). The accrued liability contribution
11 for each of the two groups of employees shall be the annual
12 payment required to liquidate the unfunded accrued liability
13 over a period of twenty-nine years beginning July 1, 2000. Any
14 increase or decrease in the total unfunded accrued liability
15 resulting from legislative changes in the benefit provisions of
16 the employees' retirement system shall be liquidated over a
17 period of time to be determined by the actuary.

18 ~~(e) [Commencing with fiscal year 2005-2006 and each~~
19 ~~subsequent fiscal year, the employer contributions for normal~~
20 ~~cost and accrued liability for each of the two groups of~~
21 ~~employees in subsection (a) shall be based on fifteen and three-~~
22 ~~fourths per cent of the member's compensation for police~~



1 ~~officers, firefighters, and corrections officers and thirteen~~
 2 ~~and three-fourths per cent of the member's compensation for all~~
 3 ~~other employees. Commencing with fiscal year 2008-2009 and each~~
 4 ~~subsequent fiscal year until fiscal year 2011-2012, the employer~~
 5 ~~contributions for normal cost and accrued liability for each of~~
 6 ~~the two groups of employees in subsection (a) shall be based on~~
 7 ~~nineteen and seven-tenths per cent of the member's compensation~~
 8 ~~for police officers, firefighters, and corrections officers and~~
 9 ~~fifteen per cent of the member's compensation for all other~~
 10 ~~employees.]~~

11 (1) In fiscal year 2012-2013, the employer contributions
 12 for normal cost and accrued liability for each of the
 13 two groups of employees in subsection (a) shall be
 14 based on twenty-two per cent of the member's
 15 compensation for police officers, firefighters, and
 16 corrections officers and fifteen and one-half per cent
 17 of the member's compensation for all other employees.

18 In fiscal year 2013-2014, the employer contributions
 19 for normal cost and accrued liability for each of the
 20 two groups of employees in subsection (a) shall be
 21 ~~[based on twenty-three per cent of the member's~~
 22 ~~compensation for]~~ as follows:



1 (A) For police officers, firefighters, and
 2 corrections officers, twenty-three per cent of
 3 the police officers', firefighters', and
 4 corrections officers' base compensation and
 5 twenty-six per cent of their non-base
 6 compensation; and

7 (B) For all other members, sixteen per cent of the
 8 [member's] members' base compensation [for all
 9 other employees.] and nineteen per cent of their
 10 non-base compensation.

11 (2) In fiscal year 2014-2015, the employer contributions
 12 for normal cost and accrued liability for each of the
 13 two groups of employees in subsection (a) shall be
 14 ~~[based on twenty-four per cent of the member's~~
 15 ~~compensation for]~~ as follows:

16 (A) For police officers, firefighters, and
 17 corrections officers, twenty-four per cent of the
 18 police officers', firefighters', and corrections
 19 officers' base compensation and twenty-seven per
 20 cent of their non-base compensation; and

21 (B) For all other members, sixteen and one-half per
 22 cent of the [member's] members' base compensation



1 ~~[for all other employees.]~~ and nineteen and one-
2 half per cent of their non-base compensation.

3 (3) Commencing with fiscal year 2015-2016 and each
4 subsequent fiscal year, the employer contributions for
5 normal cost and accrued liability for each of the two
6 groups of employees in subsection (a) shall be ~~[based~~
7 ~~on twenty-five per cent of the member's compensation~~
8 ~~for]~~ as follows:

9 (A) For police officers, firefighters, and
10 corrections officers, twenty-five per cent of the
11 police officers', firefighters', and corrections
12 officers' base compensation and twenty-eight per
13 cent of their non-base compensation; and

14 (B) For all other members, seventeen per cent of the
15 ~~[member's]~~ members' base compensation ~~[for all~~
16 ~~other employees.]~~ and twenty per cent of their
17 non-base compensation.

18 The contribution rates shall be intended to amortize the
19 total unfunded accrued liability of the entire plan over a
20 period not to exceed thirty years.

21 (f) The contribution rates shall be subject to adjustment:



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

6 SECTION 5. Section 88-123, Hawaii Revised Statutes, is
 7 amended to read as follows:

8 **"§88-123 Amount of annual contributions by the State and**
 9 **counties.** The contribution payable in each year to the pension
 10 accumulation fund by the State and by each county shall be
 11 determined by allocating the sum of the normal cost and the
 12 accrued liability contribution for:

13 (1) Police officers, firefighters, and corrections
 14 officers, the latter after the actual transfer of all
 15 county jails pursuant to executive order of the
 16 governor; and

17 (2) All other employees
 18 in the same proportion as the aggregate annual compensation of
 19 each group employed by the State and by each county,
 20 respectively, as of March 31 of the valuation year.

21 Commencing with fiscal year [~~2005-2006,~~] 2013-2014, the
 22 contribution payable in each year to the pension accumulation



1 fund by the State and each county, respectively, shall be
 2 determined by multiplying the contribution rates for base and
 3 non-base compensation in section 88-122(e) by the actual covered
 4 base and non-base compensation payroll, as applicable, in a
 5 given fiscal year for each of the two groups of employees in
 6 section 88-122(a)."

7 SECTION 6. Section 88-326, Hawaii Revised Statutes, is
 8 amended as follows:

9 1. By amending its title to read:

10 "[+]§88-326[+] **Deducting employee contributions from**
 11 **[salary] compensation and employer pick up of employee**
 12 **contributions."**

13 2. By amending subsection (a) to read:

14 "(a) The head of each state department and the finance
 15 director of each county shall deduct from the compensation of
 16 each class H member on each and every payroll under their
 17 respective jurisdictions, the percentage of compensation of each
 18 member as provided under section 88-325.

19 The total amount of deductions made from the [salaries]
 20 compensation of employees and a record of the amount deducted
 21 from each member's compensation shall be transmitted to the
 22 system semi-monthly or at other times as may be agreed upon by



1 the board. The amounts deducted shall be paid into the annuity
2 savings fund and shall be credited to the individual account of
3 the member from whose compensation the deductions were made.

4 Regular interest shall also be credited to the individual
5 account of the member in the annuity savings fund."

6 SECTION 7. Statutory material to be repealed is bracketed
7 and stricken. New statutory material is underscored.

8 SECTION 8. This Act shall take effect on July 1, 2013.

9

INTRODUCED BY: Calvin H. Ay

JAN 13 2012



Report Title:

Employees' Retirement System; Employer Contribution Rates

Description:

Requires employers to pay greater contribution rates on their employees' non-base compensation than on base compensation beginning in fiscal year 2013-2014.

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

