
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; provided that this
12 requirement shall not be applicable to collective bargaining
13 agreements in effect prior to July 1, 2013.

14 This Act does not change the employer contribution rates
15 for the base compensation of employees.

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



1 This Act is also intended to place the burden on the
2 employers, rather than the employees' retirement system, to pay
3 for the portion of employees' retirement allowances attributed
4 to non-base compensation. At present, when employees'
5 retirement allowances are actuarially greater than their
6 accumulated contributions, the excess allowance portion must be
7 paid from the earnings of the system.

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

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

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

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

21 [~~"compensation"~~] "Base compensation" means normal periodic
22 payments of money to an employee for service, the right to which



1 accrues on a regular basis in proportion to the service
2 performed[+].

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

5 "Non-base compensation" means payments of the following to
6 an employee: overtime, differentials, and supplementary
7 payments; bonuses and lump sum salary supplements; and elective
8 salary reduction contributions under sections 125, 403(b), and
9 457(b) of the Internal Revenue Code of 1986, as amended[-];
10 provided that "non-base compensation" shall not include deferred
11 compensation deductions. Bonuses and lump sum salary
12 supplements shall be deemed earned when payable; provided that
13 bonuses or lump sum salary supplements in excess of one-twelfth
14 of compensation for the twelve months prior to the month in
15 which the bonus or lump sum salary supplement is payable,
16 exclusive of overtime, bonuses, and lump sum salary supplements,
17 shall be deemed earned:

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

21 (2) In the absence of an agreement between the employer
22 and the employee, over the twelve months prior to the



1 date on which the bonus or lump sum salary supplement
2 is payable."

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

5 1. By amending its title to read:

6 "**§88-46 Deducting employee contributions from [salary]**
7 **compensation and employer pick up of employee contributions."**

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

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



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

3 "§88-122 Determination of employer normal cost and accrued
4 liability contributions. (a) Based on regular interest and
5 such mortality and other tables as are adopted by the board of
6 trustees, the actuary engaged by the board, on the basis of
7 successive annual actuarial valuations, shall determine the
8 employer's normal cost and accrued liability contributions for
9 each fiscal year beginning July 1 separately for the following
10 two groups of employees:

11 (1) Police officers, firefighters, and corrections
12 officers; and

13 (2) All other employees.

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

20 (c) With respect to each of the two groups of employees in
21 subsection (a), the normal cost for each year after June 30,
22 1994, shall be the percentage of the aggregate annual



1 compensation of employees as of March 31 of the valuation year
2 as determined by the actuary using the entry age normal cost
3 funding method. On each June 30 the board shall determine the
4 allocation of the assets of the pension accumulation fund
5 between the two groups of employees in subsection (a); provided
6 that the assets of the pension accumulation fund as of June 30,
7 1976, shall be allocated between the two groups in the same
8 proportion as the aggregate annual compensation of each group as
9 of March 31, 1976.

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



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 until fiscal year 2011-2012, the employer~~
10 ~~contributions for normal cost and accrued liability for each of~~
11 ~~the two groups of employees in subsection (a) shall be based on~~
12 ~~nineteen and seven tenths per cent of the member's compensation~~
13 ~~for police officers, firefighters, and corrections officers and~~
14 ~~fifteen per cent of the member's compensation for all other~~
15 ~~employees.]~~

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



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

6 (A) For police officers, firefighters, and
7 corrections officers, twenty-three per cent of
8 the police officers', firefighters', and
9 corrections officers' base compensation and
10 twenty-six per cent of their non-base
11 compensation; and

12 (B) For all other members, sixteen per cent of the
13 ~~[member's]~~ members' base compensation ~~[for all~~
14 ~~other employees.] and nineteen per cent of their~~
15 non-base compensation.

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

21 (A) For police officers, firefighters, and
22 corrections officers, twenty-four per cent of the



1 police officers', firefighters', and corrections
2 officers' base compensation and twenty-seven per
3 cent of their non-base compensation; and

4 (B) For all other members, sixteen and one-half per
5 cent of the [member's] members' base compensation
6 [for all other employees.] and nineteen and one-
7 half per cent of their non-base compensation.

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

14 (A) For police officers, firefighters, and
15 corrections officers, twenty-five per cent of the
16 police officers', firefighters', and corrections
17 officers' base compensation and twenty-eight per
18 cent of their non-base compensation; and

19 (B) For all other members, seventeen per cent of the
20 [member's] members' base compensation [for all
21 other employees.] and twenty per cent of their
22 non-base compensation.



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

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

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

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

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

- 17 (1) Police officers, firefighters, and corrections
- 18 officers, the latter after the actual transfer of all
- 19 county jails pursuant to executive order of the
- 20 governor; and
- 21 (2) All other employees



1 in the same proportion as the aggregate annual compensation of
2 each group employed by the State and by each county,
3 respectively, as of March 31 of the valuation year.

4 Commencing with fiscal year [~~2005-2006,~~] 2013-2014, the
5 contribution payable in each year to the pension accumulation
6 fund by the State and each county, respectively, shall be
7 determined by multiplying the contribution rates for base and
8 non-base compensation in section 88-122(e) by the actual covered
9 base and non-base compensation payroll, as applicable, in a
10 given fiscal year for each of the two groups of employees in
11 section 88-122(a)."

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

14 1. By amending its title to read:

15 "~~[+]~~**§88-326**~~[+]~~ **Deducting employee contributions from**
16 **~~[salary]~~ compensation and employer pick up of employee**
17 **contributions."**

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

19 "(a) The head of each state department and the finance
20 director of each county shall deduct from the compensation of
21 each class H member on each and every payroll under their



1 respective jurisdictions, the percentage of compensation of each
2 member as provided under section 88-325.

3 The total amount of deductions made from the [~~salaries~~]
4 compensation of employees and a record of the amount deducted
5 from each member's compensation shall be transmitted to the
6 system semi-monthly or at other times as may be agreed upon by
7 the board. The amounts deducted shall be paid into the annuity
8 savings fund and shall be credited to the individual account of
9 the member from whose compensation the deductions were made.

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

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

14 SECTION 8. This Act shall take effect on July 1, 2013;
15 provided that it shall not be applicable to collective
16 bargaining agreements in effect prior to the effective date of
17 this Act.



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. Clarifies that deferred compensation deductions not be considered as non-base compensation. Makes it applicable to collective bargaining agreements reached after July 1, 2013, and not collective bargaining agreements currently in effect. (HB1811 HD1)

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

