

DAVID Y. IGE
GOVERNOR



THOMAS WILLIAMS
EXECUTIVE DIRECTOR

KANOE MARGOL
DEPUTY EXECUTIVE DIRECTOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

TESTIMONY BY THOMAS WILLIAMS
EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII

TO THE HOUSE COMMITTEE ON FINANCE
ON

SENATE BILL NO. 2767, S.D. 2, H.D. 1

April 4, 2018
1:30 P.M.
Conference Room 308

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Luke, Vice Chair Cullen and Members of the Committee,

S.B. 2767, S.D. 2, H.D. 1, would amend Chapter 88, Hawaii Revised Statutes, by amending section 88-59(b) and 88-324(b) and (c), to assure the Employees' Retirement System ("ERS") maintains its status as a tax-qualified retirement plan under section 401(a) of the Internal Revenue Code.

The Board of Trustees of the Employees' Retirement System supports this legislation.

The ERS is intended to be a tax-qualified retirement plan under section 401(a) of the Internal Revenue Code. The proposal's amendments to chapter 88, Hawaii Revised Statutes, are to specify the method of purchasing additional membership service credit by pre-tax contributions so as to maintain the tax-qualified status of the system.



Employees' Retirement System
of the State of Hawaii

Act 86, Session Laws of Hawaii 2015, prospectively changed the cost to purchase membership service to be based on an actuarially neutral cost calculation. This delayed implementation to July 1, 2020, was to allow the ERS to obtain confirmation from the Internal Revenue Service ("IRS") that the change in the calculation of purchase cost amount would not be considered a change to the employer pick up plan previously approved by the IRS. However, the IRS no longer provides guidance in the form of private letter rulings for public plan provision approvals.

The ERS tax counsel and staff has concluded the 2015 change in purchase cost allows for greater pre-tax retirement contributions than previously approved by the IRS, this amendment is required to correct the employer pick up plan provisions for Class A and Class H members for purchases after June 30, 2020 and to maintain the plan's tax exempt status.

Thank you for this opportunity to provide testimony on S.B. 2767, S.D. 2, H.D. 1.