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TESTIMONY BY THOMAS WILLIAMS
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TO THE SENATE COMMITTEE ON LABOR
ON

HOUSE BILL NO. 2767

January 30, 2018,
2:45 P.M.
Conference Room 229

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Tokuda, Vice Chair English and Members of the Committee,

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

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.

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



Employees' Retirement System
of the State of Hawaii

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.

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

Thank you for this opportunity to provide testimony on S.B. 2767.