

**ACT 70**

S.B. NO. 2767

A Bill for an Act Relating to the Employees' Retirement System.

*Be It Enacted by the Legislature of the State of Hawaii:*

SECTION 1. The purpose of this Act is to amend and clarify provisions of chapter 88, Hawaii Revised Statutes, to maintain the status of the employees' retirement system as a tax-qualified plan under section 401(a) of the Internal Revenue Code.

SECTION 2. Section 88-59, Hawaii Revised Statutes, is amended by amending subsection (b) to read as follows:

“(b) After the filing of the statement, the board shall verify the service claimed and determine the service credit allowable. Verified prior service shall be credited. Verified membership service shall be paid for by the member in any one of the following methods, at the member's option:

- (1) If deductions commence or the lump sum payment is made prior to July 1, 2020:
  - (A) By deductions from the member's compensation pursuant to section 414(h)(2) of the Internal Revenue Code of 1986, as amended, under the employer pick up plan under section 88-46. An irrevocable payroll authorization filed by the member for a period not to exceed sixty months shall remain in effect until the completion of the payroll payments or termination of employment, whichever is earlier. The member may elect to have:
    - (i) Deductions from the member's compensation of twice the contribution rate provided for in section 88-45 over a period equal to the period for which membership service credit is allowable not to exceed sixty months; or
    - (ii) Deductions from the member's compensation of one and one-half times the contribution rate provided for in section 88-45 over a period equal to twice the period for

which membership service credit is allowable not to exceed sixty months; or

- (B) By lump sum payment of contributions computed at the contribution rate provided for in section 88-45 applied to the member's monthly rate of compensation at the time of payment multiplied by the number of months for which membership service credit is allowable; provided that after July 1, 1982, this method shall not be available to any new member with fewer than five years of membership service exclusive of any previous service acquired under subparagraph (A).
- (2) If the ~~[deductions commence or the lump sum]~~ payment is made after June 30, 2020[:
- (A) ~~By deductions from the member's compensation pursuant to section 414(h)(2) of the Internal Revenue Code of 1986, as amended, under the employer pick-up plan under section 88-46. An irrevocable payroll authorization filed by the member for a period not to exceed sixty months shall remain in effect until the completion of the payroll payments or termination of employment, whichever is earlier. The amount of the deductions shall be sufficient to amortize the actuarial cost of the membership service to be credited, together with interest at the investment yield rate assumption in effect as of the date the claim for service credit is made, in level twice monthly payments over the period specified in the irrevocable authorization. Service credited shall be proportional on the basis of whole months. For example, if a member elects to acquire twenty four months of service over sixty months and terminates employment after thirty and one half months of deductions, the member will acquire twelve months of membership service credit; or~~
- (B) ~~By]~~, by lump sum payment equal to the actuarial cost of the membership service to be credited; provided that the member has at least five years of membership exclusive of any previous service acquired under paragraph (1) ~~[or subparagraph (A)]~~.

The actuarial cost of the membership service to be credited shall be determined by the actuary for the system based on the age of the member in full years as of the date the claim for service credit is made, the investment yield rate assumption in effect as of the date the claim for service credit is made, the retirement age eligibility requirements and retirement allowance provisions applicable to the member, and other actuarial assumptions adopted by the board in effect as of the date the claim for service credit is made.

The deductions from compensation or lump sum payment shall be paid to the system and shall be credited to the member's individual account and become part of the member's accumulated contributions."

SECTION 3. Section 88-324, Hawaii Revised Statutes, is amended by amending subsections (b) and (c) to read as follows:

"(b) Except as otherwise provided in subsection (c), (d), or (e), verified membership service shall be paid for in any one of the following methods, at the member's option:

- (1) If deductions commence or the lump sum payment is made prior to July 1, 2020:
- (A) By deductions from the member's compensation pursuant to section 414(h)(2) of the Internal Revenue Code of 1986, as

amended, under the employer pick up plan under section 88-326. An irrevocable payroll authorization filed by the member for a period not to exceed sixty months shall remain in effect until the completion of the payroll payments or termination of employment, whichever is earlier. The amount of service credit that may be acquired pursuant to this method shall not exceed the period over which the payroll payments are made. The member may elect to have:

- (i) Deductions from the member's compensation of twice the contribution rate provided for in section 88-325 over a period equal to the period for which membership service credit is allowable not to exceed sixty months; or
  - (ii) Deductions from the member's compensation of one and one-half times the contribution rate provided for in section 88-325 over a period equal to twice the period for which membership service credit is allowable, not to exceed sixty months; or
- (B) By lump sum payment of contributions computed at the contribution rate provided for in section 88-325 applied to the member's monthly rate of compensation at the time of payment multiplied by the number of months for which membership service credit is allowable.
- (2) If the ~~[deductions commence or the lump sum]~~ payment is made after June 30, 2020[~~;~~]:
- (A) ~~By deductions from the member's compensation pursuant to section 414(h)(2) of the Internal Revenue Code of 1986, as amended, under the employer pick up plan under section 88-326. An irrevocable payroll authorization filed by the member for a period not to exceed sixty months shall remain in effect until the completion of the payroll payments or termination of employment, whichever is earlier. The amount of the deductions shall be sufficient to amortize the actuarial cost of the membership service to be credited, together with interest at the investment yield rate assumption in effect as of the date the claim for service credit is made, in level twice monthly payments over the period specified in the irrevocable authorization. Service credited shall be proportional on the basis of whole months. For example, if a member elects to acquire twenty four months of service over sixty months and terminates employment after thirty and one half months of deductions, the member will acquire twelve months of membership service credit; or~~
  - (B) ~~By~~, by lump sum payment equal to the actuarial cost of the membership service to be credited; provided that the member has at least five years of membership exclusive of any previous service acquired under paragraph (1) ~~[or subparagraph (A)]~~.

The actuarial cost of the membership service to be credited shall be determined by the actuary for the system based on the age of the member in full years as of the date the claim for service credit is made, the investment yield rate assumption in effect as of the date the claim for service credit is made, the retirement age eligibility requirements and retirement allowance provisions applicable to the member, and other actuarial assumptions adopted by the board in effect as of the date the claim for service is made.

The deductions from compensation or lump sum payment shall be paid to the system and shall be credited to the member's individual account and become part of the member's accumulated contributions.

Class H membership service credit in addition to any other service credited to the member shall be allowed for the period for which the deductions from compensation or lump sum payment have been made in accordance with this subsection; provided that payment shall commence within one year after the system notifies the member that the service claimed has been verified and that service credit is allowable; provided further that, for a member who becomes a member after June 30, 2016: membership service credit for prior service or for service rendered prior to the member's last becoming a member shall be claimed within one year after the member enters service; membership service credit for military service pursuant to section 88-132.5 shall be claimed within one year after the member meets the requirements of section 88-132.5(a) or (b); and any other membership service credit acquired pursuant to this section shall be claimed within one year after the member becomes eligible to receive the service credit upon satisfaction of the requirements of this section.

(c) Verified membership service for which a former class A or class B member in service on June 30, 2006, was eligible as of June 30, 2006, but failed to claim by the date established by the board pursuant to section 88-322(b), shall be paid for in any one of the following methods, at the member's option:

- (1) If deductions commence or the lump sum payment is made prior to July 1, 2020:
  - (A) By deductions from the member's compensation pursuant to section 414(h)(2) of the Internal Revenue Code of 1986, as amended, under the employer pick up plan under section 88-326. An irrevocable payroll authorization filed by the member for a period not to exceed sixty months shall remain in effect until the completion of the payroll payments or termination of employment, whichever is earlier. The amount of service credit that may be acquired pursuant to this method shall not exceed the period over which the payroll payments are made. The member may elect to have:
    - (i) Deductions from the member's compensation of twice the contribution rate applicable to the member under section 88-45 as of June 30, 2006, over a period equal to the period for which membership service credit is allowable, not to exceed sixty months; or
    - (ii) Deductions from the member's compensation of one and one-half times the contribution rate applicable to the member under section 88-45 as of June 30, 2006, over a period equal to twice the period for which membership service credit is allowable, not to exceed sixty months; or
  - (B) By lump sum payment of contributions computed at the contribution rate applicable to the member under section 88-45 as of June 30, 2006, applied to the member's monthly rate of compensation at the time of payment, multiplied by the number of months for which membership service credit is allowable.
- (2) If the ~~[deductions commence or the lump sum]~~ payment is made after June 30, 2020[:
  - (A) ~~By deductions from the member's compensation pursuant to section 414(h)(2) of the Internal Revenue Code of 1986, as amended, under the employer pick up plan under section 88-46. An irrevocable payroll authorization filed by the member~~

~~for a period not to exceed sixty months shall remain in effect until the completion of the payroll payments or termination of employment, whichever is earlier. The amount of the deductions shall be sufficient to amortize the actuarial cost of the membership service to be credited, together with interest at the investment yield rate assumption in effect as of the date the claim for service credit is made, in level twice monthly payments over the period specified in the irrevocable authorization. Service credited shall be proportional on the basis of whole months. For example, if a member elects to acquire twenty-four months over sixty months and terminates employment after thirty and one half months of deductions, the member will acquire twelve months of membership service credit; or~~  
(B) By], by lump sum payment equal to the actuarial cost of the membership service to be credited; provided that the member has at least five years of membership exclusive of any previous service acquired under paragraph (1) [or subparagraph (A)].

The actuarial cost of the membership service to be credited shall be determined by the actuary for the system based on the age of the member in full years as of the date the claim for service credit is made, the investment yield rate assumption in effect as of the date the claim for service credit is made, the retirement age eligibility requirements and retirement allowance provisions applicable to the member, and other actuarial assumptions adopted by the board in effect as of the date the claim for service is made.

The deductions from compensation or lump sum payment shall be paid to the system and shall be credited to the member's individual account and become part of the member's accumulated contributions.

Class H membership service credit in addition to any other service credited to the member shall be allowed for the period for which the deductions from compensation or lump sum payment have been made in accordance with this subsection; provided that payment shall commence within one year after the system notifies the member that the service claimed has been verified and that service credit is allowable; and provided further that, for a member who becomes a member after June 30, 2016: membership service credit for prior service or for service rendered prior to the member's last becoming a member shall be claimed within one year after the member enters service; membership service credit for military service pursuant to section 88-132.5 shall be claimed within one year after the member meets the requirements of section 88-132.5(a); and any other membership service credit acquired pursuant to this section shall be claimed within one year after the member becomes eligible to receive the service credit upon satisfaction of the requirements of this section."

SECTION 4. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 5. This Act shall take effect upon its approval.

(Approved June 29, 2018.)