
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 purpose of this Act is to provide the
2 employees' retirement system with the means to improve and
3 protect its funded status by properly funding membership service
4 credit for contributory and hybrid members receiving workers'
5 compensation benefits and acquiring retirement service credit.
6 Employees approved for workers' compensation wage loss
7 replacement benefits are paid up to their full salary for the
8 period of their leave. In contrast to other types of leaves,
9 the employee will earn full retirement service credit for this
10 period, and contributory and hybrid employees have the option,
11 but are not required, to deduct retirement contributions for
12 these wage replacement benefits. If paid, these deficient
13 contributions may be reimbursed by the employee years after the
14 service credit is granted. Similarly, earned membership service
15 is supported by employee and employer contributions during the
16 employee's employment, but acquired service is not. Previously
17 forfeited service may be acquired at any time during the



1 employee's employment at a cost based on the employee's salary
2 at the time of purchase. Previous military service may be
3 acquired at any time after the member meets the eligibility
4 requirements, at a cost based on the employee's salary at the
5 time of purchase. The employee's acquisition cost is
6 significantly lower than the actuarial cost based on the
7 employee's age, retirement eligibility, and projected retirement
8 benefits. Thus, the employee's increased retirement benefit
9 resulting from additional service acquired is funded primarily
10 by employer contributions and by contributions by other current
11 and future employees.

12 The purpose of this Act is to require that contributions be
13 made contemporaneously with the payment of workers' compensation
14 benefits. In addition, this Act requires that the cost for
15 purchasing additional service credit be based on an actuarially
16 neutral calculation and sets a time limit in which the member
17 must initiate payment for certified membership service.

18 SECTION 2. Chapter 88, Hawaii Revised Statutes, is amended
19 by adding a new section to subpart A of part II to be
20 appropriately designated and to read as follows:



1 **"§88- Contributions for unpaid leaves of absence.**
 2 Contributions required as a condition to inclusion in membership
 3 service of unpaid leaves of absence shall be made by the member
 4 within one year after return from the leave of absence."

5 SECTION 3. Section 78-25, Hawaii Revised Statutes, is
 6 amended by amending the title and subsection (a) to read as
 7 follows:

8 **"[+]§78-25[+] Credits for employees receiving workers'**
 9 **compensation benefits; wage supplement.** (a) Where an employee
 10 is absent from work because of injuries incurred within the
 11 scope of the employee's employment and the employee is receiving
 12 workers' compensation benefits, the employee shall continue to
 13 earn vacation, sick leave, and retirement credits as though the
 14 employee were not absent but performing duties of the employee's
 15 regular employment. Section 386-57 or any other law to the
 16 contrary notwithstanding, the employee [~~may elect to~~] shall have
 17 deducted from the employee's workers' compensation benefit
 18 checks an amount calculated in the same manner as if the
 19 employee were not absent but performing duties of the employee's
 20 regular employment to be used as the employee's contribution to
 21 the retirement system."



1 SECTION 4. Section 88-59, Hawaii Revised Statutes, is
2 amended to read as follows:

3 "§88-59 Acquisition of membership service. (a) Under
4 rules as the board may adopt, any member may file with the
5 [~~board~~] system a statement of all service as an employee or
6 other service paid for by the State or a county rendered prior
7 to the member's last becoming a member that is not credited to
8 the member, for which the member claims prior service credit,
9 and also a statement of the services for which the member claims
10 membership service credit and for which the member agrees to
11 have additional deductions made from the member's compensation
12 or to make a lump sum payment as described in this section.

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

18 (1) If deductions commence or the lump sum payment is made
19 prior to July 1, 2020:

20 [~~(1)~~] (A) By deductions from the member's compensation
21 pursuant to Section 414(h)(2) of the Internal



1 Revenue Code of 1986, as amended, under the
2 employer pick up plan under section 88-46. An
3 irrevocable payroll authorization filed by the
4 member for a period not to exceed sixty months
5 shall remain in effect until the completion of
6 the payroll payments or termination of
7 employment, whichever is earlier. The member may
8 elect to have:

9 ~~[-(A)]~~ (i) Deductions from the member's compensation of
10 twice the contribution rate provided for in
11 section 88-45 over a period equal to the
12 period for which membership service credit
13 is allowable not to exceed sixty months; or

14 ~~[-(B)]~~ (ii) Deductions from the member's compensation of
15 one and one-half times the contribution rate
16 provided for in section 88-45 over a period
17 equal to twice the period for which
18 membership service credit is allowable not
19 to exceed sixty months; or

20 ~~[-(2)]~~ (B) By lump sum payment of contributions computed at
21 the contribution rate provided for in section 88-



1 45 applied to the member's monthly rate of
2 compensation at the time of payment multiplied by
3 the number of months for which membership service
4 credit is allowable; provided that after July 1,
5 1982, this method shall not be available to any
6 new member with fewer than five years of
7 membership service exclusive of any previous
8 service acquired under [~~paragraph (1).~~]
9 subparagraph (A).

10 (2) If the deductions commence or the lump sum payment is
11 made after June 30, 2020:

12 (A) By deductions from the member's compensation
13 pursuant to section 414(h)(2) of the Internal
14 Revenue Code of 1986, as amended, under the
15 employer pick up plan under section 88-46. An
16 irrevocable payroll authorization filed by the
17 member for a period not to exceed sixty months
18 shall remain in effect until the completion of
19 the payroll payments or termination of
20 employment, whichever is earlier. The amount of
21 the deductions shall be sufficient to amortize



1 the actuarial cost of the membership service to
2 be credited, together with interest at the
3 investment yield rate assumption in effect as of
4 the date the claim for service credit is made, in
5 level twice-monthly payments over the period
6 specified in the irrevocable authorization.
7 Service credited shall be proportional on the
8 basis of whole months. For example, if a member
9 elects to acquire twenty-four months of service
10 over sixty months and terminates employment after
11 thirty and one-half months of deductions, the
12 member will acquire twelve months of membership
13 service credit; or
14 (B) By lump sum payment equal to the actuarial cost
15 of the membership service to be credited;
16 provided that the member has at least five years
17 of membership exclusive of any previous service
18 acquired under paragraph (1) or subparagraph (A).
19 The actuarial cost of the membership service to be credited
20 shall be determined by the actuary for the system based on
21 the age of the member in full years as of the date the



1 claim for service credit is made, the investment yield rate
2 assumption in effect as of the date the claim for service
3 credit is made, the retirement age eligibility requirements
4 and retirement allowance provisions applicable to the
5 member, and other actuarial assumptions adopted by the
6 board in effect as of the date the claim for service credit
7 is made.

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

12 (c) Membership service credit, in addition to any other
13 service credited to the member, shall be allowed for the period
14 for which the deductions from compensation or lump sum payment
15 have been made as described in this section[-]; provided that
16 payment shall commence within one year after the system notifies
17 the member that the service claimed has been verified and that
18 service credit is allowable; provided further that, for a member
19 who becomes a member after June 30, 2016:

20 (1) Membership service credit for prior service or for
21 service rendered prior to the member's last becoming a



1 member shall be claimed within one year after the
2 member enters service;

3 (2) Membership service credit for military service
4 pursuant to section 88-132.5 shall be claimed within
5 one year after the member meets the requirements of
6 section 88-132.5(a) or (b); and

7 (3) Any other membership service credit acquired pursuant
8 to this section shall be claimed within one year after
9 the member becomes eligible to receive the service
10 credit upon satisfaction of the requirements of this
11 section.

12 (d) The contribution rates under section 88-45 shall be
13 reduced by one and eight-tenths per cent for any service being
14 claimed prior to July 1, 2020, that was rendered prior to
15 July 1, 1961."

16 SECTION 5. Section 88-324, Hawaii Revised Statutes, is
17 amended by amending subsections (b) and (c) to read as follows:

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



1 (1) If deductions commence or the lump sum payment is made
2 prior to July 1, 2020:

3 [~~1~~] (A) By deductions from the member's compensation
4 pursuant to section 414(h)(2) of the Internal
5 Revenue Code of 1986, as amended, under the
6 employer pick up plan under section 88-326. An
7 irrevocable payroll authorization filed by the
8 member for a period not to exceed sixty months
9 shall remain in effect until the completion of
10 the payroll payments or termination of
11 employment, whichever is earlier. The amount of
12 service credit that may be acquired pursuant to
13 this method shall not exceed the period over
14 which the payroll payments are made. The member
15 may elect to have:

16 [~~A~~] (i) Deductions from the member's compensation of
17 twice the contribution rate provided for in
18 section 88-325 over a period equal to the
19 period for which membership service credit
20 is allowable not to exceed sixty months; or



1 ~~[(B)]~~ (ii) Deductions from the member's compensation of
2 one and one-half times the contribution rate
3 provided for in section 88-325 over a period
4 equal to twice the period for which
5 membership service credit is allowable, not
6 to exceed sixty months; or

7 ~~[(2)]~~ (B) By lump sum payment of contributions computed at
8 the contribution rate provided for in section
9 88-325 applied to the member's monthly rate of
10 compensation at the time of payment multiplied by
11 the number of months for which membership service
12 credit is allowable.

13 (2) If the deductions commence or the lump sum payment is
14 made after June 30, 2020:

15 (A) By deductions from the member's compensation
16 pursuant to section 414(h)(2) of the Internal
17 Revenue Code of 1986, as amended, under the
18 employer pick up plan under section 88-326. An
19 irrevocable payroll authorization filed by the
20 member for a period not to exceed sixty months
21 shall remain in effect until the completion of



1 the payroll payments or termination of
2 employment, whichever is earlier. The amount of
3 the deductions shall be sufficient to amortize
4 the actuarial cost of the membership service to
5 be credited, together with interest at the
6 investment yield rate assumption in effect as of
7 the date the claim for service credit is made, in
8 level twice-monthly payments over the period
9 specified in the irrevocable authorization.
10 Service credited shall be proportional on the
11 basis of whole months. For example, if a member
12 elects to acquire twenty-four months of service
13 over sixty months and terminates employment after
14 thirty and one-half months of deductions, the
15 member will acquire twelve months of membership
16 service credit; or
17 (B) By lump sum payment equal to the actuarial cost
18 of the membership service to be credited;
19 provided that the member has at least five years
20 of membership exclusive of any previous service
21 acquired under paragraph (1) or subparagraph (A).



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

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

15 Class H membership service credit in addition to any other
16 service credited to the member shall be allowed for the period
17 for which the deductions from compensation or lump sum payment
18 have been made in accordance with this subsection[-]; provided
19 that payment shall commence within one year after the system
20 notifies the member that the service claimed has been verified
21 and that service credit is allowable; provided further that, for



1 a member who becomes a member after June 30, 2016: membership
2 service credit for prior service or for service rendered prior
3 to the member's last becoming a member shall be claimed within
4 one year after the member enters service; membership service
5 credit for military service pursuant to section 88-132.5 shall
6 be claimed within one year after the member meets the
7 requirements of section 88-132.5(a) or (b); and any other
8 membership service credit acquired pursuant to this section
9 shall be claimed within one year after the member becomes
10 eligible to receive the service credit upon satisfaction of the
11 requirements of this section.

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

17 (1) If deductions commence or the lump sum payment is made
18 prior to July 1, 2020:

19 ~~(1)~~ (A) By deductions from the member's compensation
20 pursuant to section 414(h)(2) of the Internal
21 Revenue Code of 1986, as amended, under the



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

11 ~~[(A)]~~ (i) Deductions from the member's compensation of
12 twice the contribution rate applicable to
13 the member under section 88-45 as of June
14 30, 2006, over a period equal to the period
15 for which membership service credit is
16 allowable, not to exceed sixty months; or

17 ~~[(B)]~~ (ii) Deductions from the member's compensation of
18 one and one-half times the contribution rate
19 applicable to the member under section 88-45
20 as of June 30, 2006, over a period equal to
21 twice the period for which membership



1 service credit is allowable, not to exceed
2 sixty months; or
3 ~~[-(2)-]~~ (B) By lump sum payment of contributions computed at
4 the contribution rate applicable to the member
5 under section 88-45 as of June 30, 2006, applied
6 to the member's monthly rate of compensation at
7 the time of payment, multiplied by the number of
8 months for which membership service credit is
9 allowable.
10 (2) If the deductions commence or the lump sum payment is
11 made after June 30, 2020:
12 (A) By deductions from the member's compensation
13 pursuant to section 414(h)(2) of the Internal
14 Revenue Code of 1986, as amended, under the
15 employer pick up plan under section 88-46. An
16 irrevocable payroll authorization filed by the
17 member for a period not to exceed sixty months
18 shall remain in effect until the completion of
19 the payroll payments or termination of
20 employment, whichever is earlier. The amount of
21 the deductions shall be sufficient to amortize



1 the actuarial cost of the membership service to
2 be credited, together with interest at the
3 investment yield rate assumption in effect as of
4 the date the claim for service credit is made, in
5 level twice-monthly payments over the period
6 specified in the irrevocable authorization.
7 Service credited shall be proportional on the
8 basis of whole months. For example, if a member
9 elects to acquire twenty-four months over sixty
10 months and terminates employment after thirty and
11 one-half months of deductions, the member will
12 acquire twelve months of membership service
13 credit; or
14 (B) By lump sum payment equal to the actuarial cost
15 of the membership service to be credited;
16 provided that the member has at least five years
17 of membership exclusive of any previous service
18 acquired under paragraph (1) or subparagraph (A).
19 The actuarial cost of the membership service to be credited
20 shall be determined by the actuary for the system based on
21 the age of the member in full years as of the date the



1 claim for service credit is made, the investment yield rate
2 assumption in effect as of the date the claim for service
3 credit is made, the retirement age eligibility requirements
4 and retirement allowance provisions applicable to the
5 member, and other actuarial assumptions adopted by the
6 board in effect as of the date the claim for service is
7 made.

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

12 Class H membership service credit in addition to any other
13 service credited to the member shall be allowed for the period
14 for which the deductions from compensation or lump sum payment
15 have been made in accordance with this subsection[-]; provided
16 that payment shall commence within one year after the system
17 notifies the member that the service claimed has been verified
18 and that service credit is allowable; and provided further that,
19 for a member who becomes a member after June 30, 2016:
20 membership service credit for prior service or for service
21 rendered prior to the member's last becoming a member shall be



1 claimed within one year after the member enters service;
2 membership service credit for military service pursuant to
3 section 88-132.5 shall be claimed within one year after the
4 member meets the requirements of section 88-132.5(a); and any
5 other membership service credit acquired pursuant to this
6 section shall be claimed within one year after the member
7 becomes eligible to receive the service credit upon satisfaction
8 of the requirements of this section."

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

11 SECTION 7. This Act shall take effect upon its approval.



Report Title:

Retirement Service Credit; Workers' Compensation Benefits

Description:

Requires an employee receiving workers' compensation benefits to have retirement contributions deducted from those benefits. Establishes prospectively applicable, 1-year deadlines for claims for service credits and for commencement of payments. Provides for payment for acquisition based on actuarial cost. (SB1089 HD1)

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