



**GOV. MSG. NO. 1186**

EXECUTIVE CHAMBERS  
HONOLULU

DAVID Y. IGE  
GOVERNOR

June 5, 2015

The Honorable Ronald D. Kouchi,  
President  
and Members of the Senate  
Twenty-Eighth State Legislature  
State Capitol, Room 409  
Honolulu, Hawai'i 96813

The Honorable Joseph M. Souki,  
Speaker and Members of the  
House of Representatives  
Twenty-Eighth State Legislature  
State Capitol, Room 431  
Honolulu, Hawai'i 96813

Dear President Kouchi, Speaker Souki, and Members of the Legislature:

This is to inform you that on June 5, 2015, the following bill was signed into law:

SB1089 SD1 HD1

RELATING TO THE EMPLOYEES' RETIREMENT  
SYSTEM  
**ACT 086 (15)**

Sincerely,

DAVID Y. IGE  
Governor, State of Hawai'i

Approved by the Governor

on JUN 5 2015

THE SENATE  
TWENTY-EIGHTH LEGISLATURE, 2015  
STATE OF HAWAII

**ACT 086**  
**S.B. NO.** 1089  
S.D. 1  
H.D. 1

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# 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.

APPROVED this 5 day of JUN, 2015



GOVERNOR OF THE STATE OF HAWAII