



EXECUTIVE CHAMBERS  
HONOLULU

DAVID Y. IGE  
GOVERNOR

June 29, 2018

**GOV. MSG. NO. 1171**

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

The Honorable Scott K. Saiki,  
Speaker and Members of the  
House of Representatives  
Twenty-Ninth State Legislature  
State Capitol, Room 431  
Honolulu, Hawai'i 96813

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

This is to inform you that on June 29, 2018, the following bill was signed into law:

SB2767 SD2 HD1 CD1

RELATING TO THE EMPLOYEES' RETIREMENT  
SYSTEM  
**ACT 070 (18)**

Sincerely,

DAVID Y. IGE  
Governor, State of Hawai'i

---

---

# 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 amend and clarify  
2 provisions of chapter 88, Hawaii Revised Statutes, to maintain  
3 the status of the employees' retirement system as a tax-  
4 qualified plan under section 401(a) of the Internal Revenue  
5 Code.

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

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

13           (1) If deductions commence or the lump sum payment is made  
14 prior to July 1, 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 88-46. An



1           irrevocable payroll authorization filed by the  
2           member for a period not to exceed sixty months  
3           shall remain in effect until the completion of  
4           the payroll payments or termination of  
5           employment, whichever is earlier. The member may  
6           elect to have:

- 7           (i) Deductions from the member's compensation of  
8           twice the contribution rate provided for in  
9           section 88-45 over a period equal to the  
10          period for which membership service credit  
11          is allowable not to exceed sixty months; or  
12          (ii) Deductions from the member's compensation of  
13          one and one-half times the contribution rate  
14          provided for in section 88-45 over a period  
15          equal to twice the period for which  
16          membership service credit is allowable not  
17          to exceed sixty months; or

- 18          (B) By lump sum payment of contributions computed at  
19          the contribution rate provided for in section  
20          88-45 applied to the member's monthly rate of  
21          compensation at the time of payment multiplied by



1 the number of months for which membership service  
2 credit is allowable; provided that after July 1,  
3 1982, this method shall not be available to any  
4 new member with fewer than five years of  
5 membership service exclusive of any previous  
6 service acquired under subparagraph (A).

7 (2) If the [~~deductions commence or the lump sum~~] payment  
8 is made after June 30, 2020 [:-

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



1 ~~the date the claim for service credit is made, in~~  
2 ~~level twice monthly payments over the period~~  
3 ~~specified in the irrevocable authorization.~~  
4 ~~Service credited shall be proportional on the~~  
5 ~~basis of whole months. For example, if a member~~  
6 ~~elects to acquire twenty four months of service~~  
7 ~~over sixty months and terminates employment after~~  
8 ~~thirty and one half months of deductions, the~~  
9 ~~member will acquire twelve months of membership~~  
10 ~~service credit; or~~

11 ~~(B)~~ By, by lump sum payment equal to the actuarial  
12 cost of the membership service to be credited;  
13 provided that the member has at least five years  
14 of membership exclusive of any previous service  
15 acquired under paragraph (1) [~~or subparagraph~~  
16 ~~(A)~~].

17 The actuarial cost of the membership service to be credited  
18 shall be determined by the actuary for the system based on  
19 the age of the member in full years as of the date the  
20 claim for service credit is made, the investment yield rate  
21 assumption in effect as of the date the claim for service



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

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

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

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

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

17 (A) By deductions from the member's compensation  
18 pursuant to section 414(h)(2) of the Internal  
19 Revenue Code of 1986, as amended, under the  
20 employer pick up plan under section 88-326. An  
21 irrevocable payroll authorization filed by the



1 member for a period not to exceed sixty months  
2 shall remain in effect until the completion of  
3 the payroll payments or termination of  
4 employment, whichever is earlier. The amount of  
5 service credit that may be acquired pursuant to  
6 this method shall not exceed the period over  
7 which the payroll payments are made. The member  
8 may elect to have:

9 (i) Deductions from the member's compensation of  
10 twice the contribution rate provided for in  
11 section 88-325 over a period equal to the  
12 period for which membership service credit  
13 is allowable not to exceed sixty months; or

14 (ii) Deductions from the member's compensation of  
15 one and one-half times the contribution rate  
16 provided for in section 88-325 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 (B) By lump sum payment of contributions computed at  
21 the contribution rate provided for in section



1 88-325 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.

5 (2) If the [~~deductions commence or the lump sum~~] payment  
6 is made after June 30, 2020 [+]

7 ~~(A) By deductions from the member's compensation~~  
8 ~~pursuant to section 414(h)(2) of the Internal~~  
9 ~~Revenue Code of 1986, as amended, under the~~  
10 ~~employer pick up plan under section 88-326. An~~  
11 ~~irrevocable payroll authorization filed by the~~  
12 ~~member for a period not to exceed sixty months~~  
13 ~~shall remain in effect until the completion of~~  
14 ~~the payroll payments or termination of~~  
15 ~~employment, whichever is earlier. The amount of~~  
16 ~~the deductions shall be sufficient to amortize~~  
17 ~~the actuarial cost of the membership service to~~  
18 ~~be credited, together with interest at the~~  
19 ~~investment yield rate assumption in effect as of~~  
20 ~~the date the claim for service credit is made, in~~  
21 ~~level twice monthly payments over the period~~





1 ~~specified in the irrevocable authorization.~~  
2 ~~Service credited shall be proportional on the~~  
3 ~~basis of whole months. For example, if a member~~  
4 ~~elects to acquire twenty four months of service~~  
5 ~~over sixty months and terminates employment after~~  
6 ~~thirty and one half months of deductions, the~~  
7 ~~member will acquire twelve months of membership~~  
8 ~~service credit; or~~

9 ~~(B)~~ By, by lump sum payment equal to the actuarial  
10 cost of the membership service to be credited;  
11 provided that the member has at least five years  
12 of membership exclusive of any previous service  
13 acquired under paragraph (1) ~~[or subparagraph~~  
14 ~~(A)]~~.

15 The actuarial cost of the membership service to be credited  
16 shall be determined by the actuary for the system based on  
17 the age of the member in full years as of the date the  
18 claim for service credit is made, the investment yield rate  
19 assumption in effect as of the date the claim for service  
20 credit is made, the retirement age eligibility requirements  
21 and retirement allowance provisions applicable to the



1 member, and other actuarial assumptions adopted by the  
2 board in effect as of the date the claim for service is  
3 made.

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

8 Class H membership service credit in addition to any other  
9 service credited to the member shall be allowed for the period  
10 for which the deductions from compensation or lump sum payment  
11 have been made in accordance with this subsection; provided that  
12 payment shall commence within one year after the system notifies  
13 the member that the service claimed has been verified and that  
14 service credit is allowable; provided further that, for a member  
15 who becomes a member after June 30, 2016: membership service  
16 credit for prior service or for service rendered prior to the  
17 member's last becoming a member shall be claimed within one year  
18 after the member enters service; membership service credit for  
19 military service pursuant to section 88-132.5 shall be claimed  
20 within one year after the member meets the requirements of  
21 section 88-132.5(a) or (b); and any other membership service



1 credit acquired pursuant to this section shall be claimed within  
2 one year after the member becomes eligible to receive the  
3 service credit upon satisfaction of the requirements of this  
4 section.

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

10 (1) If deductions commence or the lump sum payment is made  
11 prior to July 1, 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 88-326. 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 service credit that may be acquired pursuant to



1           this method shall not exceed the period over  
2           which the payroll payments are made. The member  
3           may elect to have:

4           (i) Deductions from the member's compensation of  
5           twice the contribution rate applicable to  
6           the member under section 88-45 as of  
7           June 30, 2006, over a period equal to the  
8           period for which membership service credit  
9           is allowable, not to exceed sixty months; or

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

17          (B) By lump sum payment of contributions computed at  
18          the contribution rate applicable to the member  
19          under section 88-45 as of June 30, 2006, applied  
20          to the member's monthly rate of compensation at  
21          the time of payment, multiplied by the number of



1 months for which membership service credit is  
2 allowable.

3 (2) If the [~~deductions commence or the lump sum~~] payment  
4 is made after June 30, 2020[+]

5 ~~(A) By deductions from the member's compensation~~  
6 ~~pursuant to section 414(h)(2) of the Internal~~  
7 ~~Revenue Code of 1986, as amended, under the~~  
8 ~~employer pick up plan under section 88-46. An~~  
9 ~~irrevocable payroll authorization filed by the~~  
10 ~~member for a period not to exceed sixty months~~  
11 ~~shall remain in effect until the completion of~~  
12 ~~the payroll payments or termination of~~  
13 ~~employment, whichever is earlier. The amount of~~  
14 ~~the deductions shall be sufficient to amortize~~  
15 ~~the actuarial cost of the membership service to~~  
16 ~~be credited, together with interest at the~~  
17 ~~investment yield rate assumption in effect as of~~  
18 ~~the date the claim for service credit is made, in~~  
19 ~~level twice monthly payments over the period~~  
20 ~~specified in the irrevocable authorization.~~  
21 ~~Service credited shall be proportional on the~~



1 ~~basis of whole months. For example, if a member~~  
2 ~~elects to acquire twenty four months over sixty~~  
3 ~~months and terminates employment after thirty and~~  
4 ~~one half months of deductions, the member will~~  
5 ~~acquire twelve months of membership service~~  
6 ~~credit; or~~

7 ~~(B)~~ By], by lump sum payment equal to the actuarial  
8 cost of the membership service to be credited;  
9 provided that the member has at least five years  
10 of membership exclusive of any previous service  
11 acquired under paragraph (1) [~~or subparagraph~~  
12 ~~(A)~~].

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



1 board in effect as of the date the claim for service is  
2 made.

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

7 Class H membership service credit in addition to any other  
8 service credited to the member shall be allowed for the period  
9 for which the deductions from compensation or lump sum payment  
10 have been made in accordance with this subsection; provided that  
11 payment shall commence within one year after the system notifies  
12 the member that the service claimed has been verified and that  
13 service credit is allowable; and provided further that, for a  
14 member who becomes a member after June 30, 2016: membership  
15 service credit for prior service or for service rendered prior  
16 to the member's last becoming a member shall be claimed within  
17 one year after the member enters service; membership service  
18 credit for military service pursuant to section 88-132.5 shall  
19 be claimed within one year after the member meets the  
20 requirements of section 88-132.5(a); and any other membership  
21 service credit acquired pursuant to this section shall be

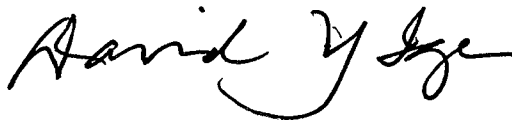


1 claimed within one year after the member becomes eligible to  
2 receive the service credit upon satisfaction of the requirements  
3 of this section."

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

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

APPROVED this 29 day of JUN, 2018



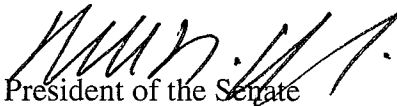
GOVERNOR OF THE STATE OF HAWAII




**THE SENATE OF THE STATE OF HAWAI'I**

Date: May 1, 2018  
Honolulu, Hawaii 96813

We hereby certify that the foregoing Bill this day passed Final Reading in the  
Senate of the Twenty-ninth Legislature of the State of Hawai'i, Regular Session of 2018.



President of the Senate



Clerk of the Senate

SB No. 2767, SD 2, HD 1, CD 1

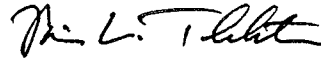
THE HOUSE OF REPRESENTATIVES OF THE STATE OF HAWAII

Date: May 1, 2018  
Honolulu, Hawaii

We hereby certify that the above-referenced Bill on this day passed Final Reading in the House of Representatives of the Twenty-Ninth Legislature of the State of Hawaii, Regular Session of 2018.



Scott K. Saiki  
Speaker  
House of Representatives



Brian L. Takeshita  
Chief Clerk  
House of Representatives