

STAND. COM. REP. NO.

1075

Honolulu, Hawaii

MAR 23 2021

RE: S.R. No. 174
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-First State Legislature
Regular Session of 2021
State of Hawaii

Sir:

Your Committee on Labor, Culture and the Arts, to which was referred S.R. No. 174 entitled:

"SENATE RESOLUTION URGING THE EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII TO ESTABLISH AND OFFER TO ITS QUALIFIED GOVERNMENTAL PENSION PLAN PARTICIPANTS, A QUALIFIED ROTH CONTRIBUTION PROGRAM,"

begs leave to report as follows:

The purpose and intent of this measure is to urge the Hawaii Employees' Retirement System to establish and offer to its qualified governmental pension plan participants, a qualified Roth contribution program by July 1, 2022.

Your Committee received testimony in support of this measure from one individual. Your Committee received testimony in opposition to this measure from the Employees' Retirement System.

Your Committee finds that saving money to cover one's living costs after retirement is one of the most important financial goals an individual will need to achieve, and the State has a vested interest in ensuring that its populace has adequate retirement savings for economic and healthcare purposes, as people without sufficient retirement savings may need to rely on governmental assistance after retirement and strain the State budget. The State currently offers its employees:



- (1) A tax-qualified defined benefit pension plan that requires mandatory employer contributions by the State, is governed by section 401(a) of the Internal Revenue Code (IRC), and administered by the Employees' Retirement System (ERS);
- (2) The Island Savings Plan, which is a voluntary deferred compensation plan offered by the Department of Human Resources Development (DHRD) that is governed by section 457(b) of the IRC and administered by Prudential Retirement Insurance and Annuity Company;
- (3) A voluntary tax-sheltered annuity plan for employees of the Department of Education (DOE) and University of Hawaii that is governed by section 403(b) of the IRC and administered by National Benefit Services, LLC; and
- (4) A deferred compensation retirement plan offered by the DHRD for part-time, temporary, and seasonal/casual employees that is governed by section 457 of the IRC and administered by Life Insurance Company of the Southwest, a member of National Life Group.

All retirement plans currently offered to state employees are traditional retirement plans that deduct contributions from the employee's pre-tax income, and therefore reduces the employee's taxable income and federal and state tax burden for that current year. However, all future distributions, including capital gains in the account, are treated as taxable income at the time of withdrawal. Your Committee finds that section 402A of the IRC allows certain employer retirement plans to have a qualified Roth contribution program, under which plan participants may designate some or all of their retirement contributions as designated Roth contributions and have them placed into their designated Roth accounts. Unlike traditional pre-tax retirement contributions, an employee's designated Roth contribution is included in the employee's gross income in the year the contribution is made; however, qualified distributions from the designated Roth account (including capital gains in the account) are not treated as taxable income at the time of withdrawal. Your Committee finds that the option of a designated Roth account will benefit many plan participants, especially the employees whose retirement distributions will not occur until decades later because the tax



savings for the distributions and capital gains accumulated in their designated Roth accounts over the years (due to compounding of interests) excluded from taxable income may surpass the amount of tax saved by making pre-tax contributions into traditional accounts. Your Committee also finds that a broader selection of retirement plans will entice more employees to contribute to their retirement accounts and induce other public and private sector employers to offer their employees the same option.

Your Committee notes testimony from ERS stating that under section 401(a) of the IRC, the ERS cannot maintain its tax-qualified status if it offers "elective deferrals" of compensation to its participants in the manner contemplated by a Roth contribution plan. In contrast, the DHRD and DOE currently offer a deferred compensation program for state employees separate from the retirement plans offered by the ERS, and can offer an alternative, qualified Roth contribution program for elective deferral of compensation by state workers.


Accordingly, your Committee has amended this measure by:

- (1) Replacing the ERS with the DHRD and DOE, as the state agencies urged to establish and offer to their retirement plan participants, a qualified Roth contribution program; and
- (2) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Labor, Culture and the Arts that is attached to this report, your Committee concurs with the intent and purpose of S.R. No. 174, as amended herein, and recommends that it be referred to your Committee on Ways and Means, in the form attached hereto as S.R. No. 174, S.D. 1.



Respectfully submitted on
behalf of the members of the
Committee on Labor, Culture and
the Arts,



BRIAN T. TANIGUCHI, Chair



The Senate
Thirty-First Legislature
State of Hawai'i

Record of Votes
Committee on Labor, Culture and the Arts
LCA

Bill / Resolution No.:*	Committee Referral:	Date:		
SR 174	LCA, WAM	3/19/2021		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
TANIGUCHI, Brian T. (C)	✓			
IHARA, Jr., Les (VC)	✓			
CHANG, Stanley	✓			
KEOHOKALOLE, Jarrett	✓			
FEVELLA, Kurt				✓
TOTAL	4	0	0	1
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes