

DAVID Y. IGE
GOVERNOR

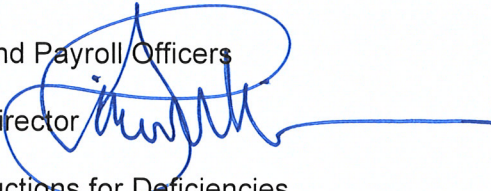


THOMAS WILLIAMS
EXECUTIVE DIRECTOR

KANOE MARGOL
DEPUTY EXECUTIVE DIRECTOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

August 11, 2020

TO: State and County Personnel and Payroll Officers
FROM: Thomas Williams, Executive Director 
RE: ERS Contribution Payroll Deductions for Deficiencies

The purpose of this memorandum is to inform you that all employee payroll deductions of additional ERS contributions for deficiency recovery will no longer be permitted.

In order to assist employees making-up deficient contributions, some employers have "picked up" these contributions by additional deductions on a pre-tax basis along with the normal required contributions for retirement membership purposes. Under the tax-qualification requirements of the IRS for a plan such as the ERS, this tax treatment is impermissible and places at risk the plan's tax-exempt status. Effective immediately, please discontinue all additional payroll deductions for contribution deficiencies.

Additional contribution deductions include:

- Repayments of workers' compensation contribution deficiencies
- Deficiencies due to ERS classification miscoding, late enrollments
- "Make-up" contributions for previous incorrect deductions
- Contribution adjustments from current salaries for previously underpaid contributions

Associated with our tax-qualification review, ERS will no longer allow the last period of ERS non-eligible service prior to the employee's official membership date (i.e., 89-day hires, contract hires, etc.) to be included with the member's service by retroactively "correcting" the member's start date. Despite being contiguous with the member's membership employment, retroactive enrollments create indeterminate membership statuses and problematic contribution deficiencies. According to the IRS, once wages have been received by an employee, the wages are taxable and cannot be converted into another type of elective pre-tax contribution.



Employees' Retirement System
of the State of Hawaii

City Financial Tower • 201 Merchant Street, Suite 1400 • Honolulu, Hawaii 96813-2980
Telephone (808) 586-1735 • Fax (808) 586-1677 • <http://ers.ehawaii.gov>

Additional contributions for purchases of previous service credit by payroll deduction authorized by the ERS at full or one-half of the employee's current contribution rates will continue to be permitted.

Please immediately cancel any current arrangements you have with your employees for deficiency payments by payroll deduction: we ask that you complete the attached list with information on the deficient employee, and fax it to (808) 586-1731 by August 31st. ERS will notify these employees of the remaining deficiency to be recovered and arrange to have these post-tax payments made directly between the member and the ERS. There are currently no provisions for post-tax ERS contributions by payroll deduction.

Should you have any questions, please contact Karl Kaneshiro, Benefits Branch Manager, at (808) 586-1736, karl.kaneshiro@hawaii.gov or Donna Curry, Program Specialist, (808) 586-1678, donna.curry@hawaii.gov.

Thank you for your assistance!

Attachement

Date: _____

To: ERS Retirement Benefits Branch; Fax #: (808) 586-1731

From Department/Agency: _____

Name: _____

Position: _____

Contact Info: Phone: _____ Email: _____

Employees with ERS deficiency deductions:

Last Name, First Name, MI	Last 4 digits of SSN	Mailing Address

Due: August 31, 2020