

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Study of the Feasibility of an Optional Retirement Plan for University of Hawaii Faculty

### Summary

This study was prepared in response to the Legislature's request in House Concurrent Resolution No. 276, House Draft 1, Senate Draft 1 of the 1996 Regular Session. The study was conducted by the Office of the Auditor and Deloitte & Touche LLP, which provided us with actuarial and related services.

In recent years, the Legislature has been considering whether to provide faculty members of the University of Hawaii with a retirement plan option other than the existing state Employees' Retirement System. In our study, we concluded that the decision to approve an optional retirement plan depends, in large measure, upon issues of philosophy and equity. The Employees' Retirement System currently provides a traditional plan built on the philosophy that retirement benefits should primarily reward long-term service to the State. A fundamental policy question is whether to depart somewhat from this philosophy by providing one group of state employees—university faculty—with a different type of retirement plan that includes rewards for short-term service. A closely related question is how important retirement options are to the university's competitiveness in recruiting and retaining qualified university faculty—an issue on which our study found differing perspectives.

If the Legislature, upon considering these fundamental questions, chooses to adopt an optional retirement plan for University of Hawaii faculty, various alternatives are available, each designed to achieve certain goals as described in our report. Alternative D in our report would be the most costly package to the State because it does not require faculty contributions and it also provides a high level of benefits to faculty either upon terminating employment prior to retirement or upon leaving at normal retirement age. Because Alternative D is favorable to university faculty, it is especially likely to stimulate demands by other state employees for a similar package, thus intensifying the "equity" issue.

Alternatives A, B, and C in our report are more constrained approaches that enable the State to keep its costs of providing retirement benefits to university faculty at a level similar to costs under the existing Employees' Retirement System. These three alternatives differ from each other in such respects as who will bear the investment risk, whether an employee contribution is required, and whether participation is optional or mandatory for faculty hired in the future.



Finally, decision makers considering an optional retirement plan for university faculty should take into account the efforts and administrative costs of establishing a new plan. As our report shows, establishment of a plan occurs in several complex phases with a variety of administrative costs to be incurred at each phase.

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## Recommendation and Response

If the Legislature decides to authorize an optional retirement plan for University of Hawaii faculty, we recommend that it consider the alternative approaches—A, B, C, and D—that we present in our report. Each of the alternatives has tradeoffs that can be weighed by decision makers in light of our analysis.

In its comments on our draft report, the Employees' Retirement System raised questions about some of our projections and made recommendations concerning the choices available to current Employees' Retirement System members and to new employees if an optional retirement plan is adopted.

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