

TESTIMONY BY WESLEY K. MACHIDA  
EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM  
STATE OF HAWAII

TO THE HOUSE COMMITTEE ON FINANCE  
ON  
SENATE BILL NO. 2916, S.D. 2, H.D. 1

APRIL 2, 2014, 2:00 P.M.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Luke and Members of the Committee:

S.B. 2916, S.D. 2, H.D.1, proposes to amend Section 88-103.7, Hawaii Revised Statutes (HRS), which requires departments of the State and counties to provide payroll and personnel information electronically to the Employees' Retirement System (ERS).

This proposal specifies that, in addition to allocating payments to the periods payments are earned and specifying the purpose or nature of the payments, the employers are required to "indicate any changes or errors in payments that require correcting or updating."

In addition, if the State or counties do not provide the information in the format required by the System, they would be required to pay their employer contributions at the beginning of the following fiscal year (rather than on a monthly basis) in which the failure occurred. Any unpaid amounts would be subject to additional interest based on a rate equal to the investment yield assumption of the ERS. In order for employers to prepare their budgets, the ERS will submit a report to the Legislature and the Department of Budget and Finance indicating anticipated employer amounts payable for the upcoming fiscal year.

ERS's personnel and payroll file formats are currently configured to accept corrections, adjustments and updated information, though most employers do not utilize this capability, resulting in delays in the processing of retirement benefits. S.B. 2916, S.D. 2, H.D. 1, specifies that, if the ERS changes the required file format, each department or agency has 180 days from the notice of change to update their reporting format. This would provide sufficient time for both the employer and the ERS to update, test and validate accurate data reporting.

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The Board of Trustees of the Employees' Retirement System supports this bill.

Thank you for the opportunity to provide testimony on this important measure.

TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
SENATE BILL NO. 2916, S.D. 2, H.D. 1

April 2, 2014

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Senate Bill No. 2916, S.D. 2, H.D. 1, requires, rather than allows, the Employees' Retirement System (ERS) to require any department or agency of the State or counties to furnish to the ERS certain payroll and personnel transaction information, including any changes or errors in payments that require correcting or updating. The bill also provides that if a department or agency fails to provide the information, the State or county is required to pay to the ERS, on the first day of the following fiscal year in which the failure occurred, an amount equal to the employer contributions payable by the State or county relative to that department or agency. In addition, if the required payment is not made on the first day of the fiscal year, any unpaid amounts shall bear interest and any subsequent payments shall be applied first to accrued interest and then to the required payment. Finally, the bill allows the ERS to waive department or agency requirements paying employer contributions due to certain unforeseen circumstances.

The Department of Budget and Finance (B&F) has serious concerns with this measure. While we agree with the importance of getting timely information to the ERS, the punitive nature of the penalty is unduly harsh and could cause general fund cash flow problems at the onset of a fiscal year if the department failing to furnish the ERS with the required information is a large department and does not

meet the waiver criteria. Individual departments do not feel the punitive fiscal impact of having to pay in advance the ERS contributions because the contributions are budgeted within the three program areas of B&F. Below is a breakdown of projected annual payments to the ERS (amounts are in millions of dollars):

	<u>FY 15</u>	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>	<u>FY 19</u>
BUF 741 – Retirement Benefits - State	\$294	\$336	\$351	\$362	\$369
BUF 745 – Retirement Benefits – Department of Education (DOE)	\$285	\$320	\$335	\$343	\$350
BUF 748 – Retirement Benefits – University of Hawaii (UH)	\$139	\$146	\$149	\$152	\$155

While Senate Bill No. 2916, S.D. 2, H.D. 1, allows for the penalty to be assessed relative to the department not in compliance with Section 88-103.7, Hawaii Revised Statutes, should the department be the DOE or UH, the full year annual contribution being paid on the first day of the fiscal year would be quite detrimental to the State treasury. Furthermore, assessing interest on any unpaid amounts will negatively impact B&F's ability to provide full year payments as funding that would have gone towards payments must go towards paying interest penalties first.

The department supports the ERS's efforts to quickly and accurately calculate its payroll formulas, thus improving efficiencies for employers, employees, and the overall system. We recognize that this effort would go a long ways towards seeing those improvements implemented. However, the department continues to struggle with supporting this approach with balancing the financial practicalities with sound fiscal management for the State.



STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
P.O. BOX 2360  
HONOLULU, HAWAII 96804

**Date:** 04/02/2014

**Committee:** House Finance

**Department:** Education

**Person Testifying:** Kathryn S. Matayoshi, Superintendent of Education

**Title of Bill:** SB 2916,SD2,HD1(hscr1184-14) RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

**Purpose of Bill:** Requires ERS to require any department or agency of the State or counties to furnish to the system certain payroll and personnel transaction information, including changes or errors in payments. Provides that if a department or agency fails to provide the information in the required format, the State or county is required to pay to the system an amount equal to the employer contributions payable by the department or agency. Provides that unpaid amounts shall bear interest. Allows ERS to waive department or agency requirements paying employer contributions due to unforeseen circumstances. Requires reporting. Effective July 1, 2050. (SB2916 HD1)

**Department's Position:**

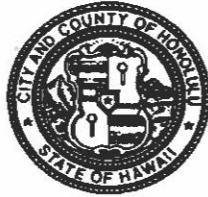
S.B. 2916, SD2, HD1 (hscr1184-14) proposes to amend Section 88-103.7, Hawaii Revised Statutes (HRS), which requires departments of the State and counties to provide payroll and personnel information electronically to the Employees' Retirement System (ERS).

Currently, the Department of Education (DOE) does not electronically transmit payroll information to the Employees' Retirement System (ERS). The DOE's payroll information is transmitted to ERS by the Department of Accounting and General Services (DAGS). The DOE payroll information provided to DAGS is based on requirements to process payroll and the DOE is not involved in the timing, content, or format of data transmitted to ERS.

DEPARTMENT OF HUMAN RESOURCES  
**CITY AND COUNTY OF HONOLULU**

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KIRK CALDWELL  
MAYOR



CAROLEE C. KUBO  
DIRECTOR  
  
NOEL T. ONO  
ASSISTANT DIRECTOR

April 2, 2014

**LATE**

The Honorable Sylvia Luke, Chair  
and Member of the Committee on Finance  
The House of Representatives  
State Capitol, Room 308  
415 South Beretania Street  
Honolulu, Hawaii 96813

Dear Chair Luke and Members of the Committee:

SUBJECT: Senate Bill No. 2916, SD2, HD1  
Relating to the Employees' Retirement System

The City and County of Honolulu has concerns about Senate Bill 2916, SD2, HD1, which would compel the Employees' Retirement System (ERS) to require the employers to submit data to the ERS in a particular electronic format and to penalize employers who did not comply.

Although we view working cooperatively with the ERS to ensure employees who retire from the City are properly paid as very important, **we cannot support this measure** because of the high degree of uncertainty surrounding the implementation of the bill.

The areas we view as uncertain are as follows:

- The electronic format (or formats) that will be acceptable to the ERS is unknown.
  - The City has worked diligently with the ERS to provide current employee data in the format specified by the ERS.
    - If the current format is deemed acceptable, then the City would be in compliance for this data.
    - If the current format is not acceptable and there is a change, the City would not be in compliance until the change is made (if, in fact, our system can accommodate the change).
- The ERS currently accepts some types of information and documents in a non-electronic form. The bill requires the ERS to only accept information electronically.
  - If the acceptable electronic format is to have these documents scanned in so there is a PDF document, the City would likely be able to comply.
  - If the requirement is to convert the document into, for example, an electronic spreadsheet, it would take considerable resources to manually type in the data

and to check to ensure the data was correctly entered. This would result in a delay in providing the information and could result in resources being pulled from other tasks to comply with the request.

- The 180 day period within which employers must comply with any format changes may not be sufficient.
  - Although we do not know what the initial required format will be, if we assume the format being used for current employee information will be deemed acceptable, changes will still be a challenge as the interface which provides the information required by the ERS is one of the largest and most complex.
    - If the changes can be easily done and staff to work on those changes are not assigned to other priority tasks, then the City may be able to comply
    - If the changes cannot easily be done—or are not possible with the system we have, then the City may not be able to comply. (We note that the ERS, State and counties may all have differing systems and different levels of compatibility.)
- The circumstances under which the ERS may waive the penalty may not cover all the circumstances that may warrant a waiver.
  - The ERS should be permitted broader authority to waive the penalty. For example, the ERS may find it is acceptable to continue to receive documents in paper format if the documents do not exist in electronic format—so the ERS may want to waive penalty in this case.
- The implementation of the penalty may not provide sufficient time for employers to assess the need for additional resources and to obtain those resources.
  - Given the uncertainty noted above regarding the formats that will be acceptable and the changes that will need to be made (if any), the City is unable to determine whether additional staffing or other resources will be needed to comply with this law and avoid the penalty.
    - Even if it is determined that additional resources are needed, there will be another delay as the City must go through the budget process to obtain the needed resources.

In light of the above we respectfully ask that this measure be held. Thank you for the opportunity to comment on this measure.

Sincerely,



Carolee C. Kubo  
Director