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February 24, 2014

**TESTIMONY TO THE  
SENATE COMMITTEE ON WAYS AND MEANS**

For Hearing on Tuesday, February 25, 2014  
9:15 a.m., Conference Room 211

BY

BARBARA A. KRIEG  
DIRECTOR

**Senate Bill No. 2916, S.D. 1**  
**Relating to the Employees' Retirement System**

**WRITTEN TESTIMONY ONLY**

TO CHAIRPERSON DAVID IGE AND MEMBERS OF THE COMMITTEE

The purpose of S.B. 2916, S.D. 1, is to require the employees' retirement system (ERS) to require any department or agency of the State or counties to furnish to the system certain payroll and personnel transaction information, including any changes or errors in payments that require correcting or updating. Failure to provide payroll and personnel transaction information in the format required by the system will result in the State or counties paying a penalty to the ERS system in an amount equal to the employer contributions during the fiscal year in which the failure to provide the required information occurred.



The Department of Human Resources Development (DHRD) offers the following comments regarding this bill:

DHRD provides electronic data files to the ERS system for the state departments under the administration of DHRD in the format currently prescribed. Information from DHRD's Human Resources Management System is sent to the ERS system via a system program in accordance with a set schedule.

We note that there are no parameters in this bill for the levying of penalties. In other words, the penalties will be assessed regardless of the circumstances. In this respect, the State could incur penalties if there was a system failure which corrupted the file or delayed the transmission of the file to ERS. DHRD therefore respectfully suggests that the language in the bill be revised to allow for consideration of unforeseen/unavoidable circumstances that may have prevented an employer from complying with the law, thereby allowing the employer to avoid the statutory penalties.

Thank you for this opportunity to testify on this measure.



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

February 25, 2014

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Senate Bill No. 2916, S.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). If the government employers who contribute to the ERS (State, counties, etc.) 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. Any unpaid amounts would be subject to additional interest based on a rate equal to the investment yield assumption of the ERS.

The Department of Budget and Finance (B&F) does support this measure. However, please be advised that the implication to the management and operation of State government could be significant. Retirement benefit payments (contributions to the ERS) are appropriated in the State budget between three appropriation programs:

- BUF741 – Retirement Benefits Payments–State
- BUF745 – Retirement Benefits-DOE
- BUF748 - Retirement Benefits-UH

The collective annual appropriation for all three of these programs is in the order of more than \$660 million. As written, Senate Bill 2916, S.D. 1, would subject the entire State to the penalty of having to pay in advance the employer contribution to the ERS for the entire year even if it were only one department within the State that would not comply with the ERS reporting requirement. I understand that one of the reasons and impetus necessitating this legislation is that, at the State, one department in particular has been very tardy in providing historical payroll-related information to the ERS.

While I agree with, and appreciate, the importance of getting timely information to the ERS, I would want the Legislature to also recognize the punitive nature of the penalty as it relates to government operations. Individual departments do not feel the

punitive impact of having to pay in advance the ERS contribution since the contribution is handled within the B&F.

Furthermore, requiring the State as an employer to contribute its entire yearly ERS payment at the beginning of the year for the misses of one or few departments would be an uneven balance of the penalty. Lastly, requiring the State to make a cash contribution payment of more than \$660 million in first month of the fiscal year may have detrimental implications for the State treasury and the limited balance of funds available in the treasury at some point in the future.

In the interest of bettering the bill, I recommend that Senate Bill 2916, S.D. 1, be amended to, at least, only require the State to contribute based on the program appropriations relative to the department(s) not in compliance with the expectations of the bill. I would also recommend that the B&F be required to report to the Legislature the amount, program fund, and specify the department(s) as the root cause for effectuating this statute annually.

Thank you for the opportunity to testify.

**Written Only**

**Date:** 02/25/2014

**Time:** 09:15 AM

**Location:** Conference Room 211

**Committee:** Senate Ways and Means

**Department:** Education

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

**Title of Bill:** SB 2916, SD1(sscr2441) RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

**Purpose of Bill:** Requires, rather than allows, the employees' retirement system to require any department or agency of the State or counties to furnish to the system certain payroll and personnel transaction information, including any changes or errors in payments that require correcting or updating. Provides that if a department or agency fails to provide the information, the State or county is required to pay to the system, 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. Provides that 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. Effective 07/01/16. (SD1)

**Department's Position:**

S.B. 2916 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.

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

TO THE SENATE COMMITTEE ON WAYS AND MEANS  
ON  
SENATE BILL NO. 2916, S.D. 1

FEBRUARY 25, 2014, 9:15 AM

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Ige, Vice-Chair Kidani and Members of the Committee:

S.B. 2916, S.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.

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.

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

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