

JOSH GREEN, M.D.
GOVERNOR



THOMAS WILLIAMS
EXECUTIVE DIRECTOR

KANOE MARGOL
DEPUTY EXECUTIVE DIRECTOR

**STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM**

**TESTIMONY BY THOMAS WILLIAMS
EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND GOVERNMENT OPERATIONS
ON
HOUSE BILL NO. 103
January 31, 2023
9:00 A.M.
Conference Room 309 and VIA Videoconference**

RELATING TO EMPLOYEES' RETIREMENT SYSTEM.

Chair Matayoshi, Vice Chair Garrett, and Members of the Committee,

H.B. 103 proposes to amend Section § 88-103.7, Hawaii Revised Statutes ("HRS"), to allow departments and agencies of the State and counties time to comply with Employees' Retirement System reporting standards based on when final specifications as to employer reporting requirements are provided by the Employees' Retirement System ("ERS" or "System"). While the ERS Board of Trustees has not had the opportunity to review the bill, the ERS staff believes the Board would oppose the measure and respectfully requests that the bill be deferred. The ERS communicated final specifications and file reporting format requirements to all employers in a memo dated November 16, 2022.

In 2015, Act 87 amended HRS § 88-103.7 to require the ERS to specify the electronic format in which the State and Counties are required to report payroll and personnel transactions to the ERS. The reporting of such information is necessary to ensure ERS benefits are calculated accurately and consistently for all members of the System and that the System meets the requirements to keep its tax qualification status under Section 401(a) of the Internal Revenue Code. If a department or agency of the State or county fails to furnish the System with the required information in the ERS-specified format within 180 days from the date of receipt of the notice of the required format or



Employees' Retirement System
of the State of Hawaii

notice of a change in the required format, the respective department or agency is required to pay the System an amount equal to the employer contributions for the fiscal year in which the failure to furnish the required information occurred, the balance of which shall be applied to the amount owed each fiscal quarter.

H.B. 103 proposes to amend HRS § 88-103.7(b) by increasing the time within which departments or agencies of the State and counties have to comply with the ERS-specified format and, any changes thereto, from 180 days to two (2) years from the date the System provides the final specifications for the initial format requirements or any notice of change in the required format. H.B. 103 also provides that the ERS and each department or agency of the State and counties are to mutually agree on a date by which the department or agency will submit test files for the ERS' review and acceptance. No penalty can be imposed on the department or agency if the employer submits their test file by the mutually agreed upon date.

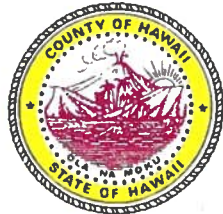
The ERS respectfully opposes the proposed amendments. Since 2015, the ERS has worked closely with the departments and agencies of the State and counties to understand their respective personnel and payroll reporting systems in developing a comprehensive reporting format. In a [September 1, 2022 memorandum](#), the ERS provided clarification and guidance as to the types of pay that may be reported as compensation for ERS purposes. A [second memorandum on November 16, 2022](#) provided the requirements and file formats for personnel and payroll reporting. The memorandum stated an effective date for employer compliance of January 1, 2023 but noted that ERS would allow a grace period ending June 30, 2023. The June 30, 2023 compliance deadline therefore represents a culmination of a years-long joint effort between the ERS and the departments and agencies of the State and counties.

H.B. 103's proposal to establish a test file process whereby the deadline for compliance is subject to the agreement of the respective department or agency would not only allow departments and agencies to circumvent the statutory compliance deadline, but it would undoubtedly hinder enforcement efforts because the ERS would then have to track each department or agency's individual compliance deadline. Further, if a department or agency cannot comply with the deadline, HRS § 88-103.7(e) already provides a means of recourse by authorizing the System to grant an extension by waiving the reporting requirements and penalty due to an unforeseen system failure, natural disaster, or other unforeseen events.

The ERS continues to be committed to work with State and counties departments and agencies on the requirements to ensure compliance for employer reporting to ensure accurate and consistent benefits for its members.

Thank you for the opportunity to provide testimony on H.B. 103.

Mitchell D. Roth
Mayor



Waylen L. K. Leopoldino
Director of Human Resources

Danny B. Patel
Deputy Director of Human Resources

County of Hawai'i Department of Human Resources

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January 30, 2023

The Honorable Scot Z. Matayoshi, Chair
The Honorable Andrew Takuya Garrett, Vice Chair
and Members of the Committee on Labor & Government Operations

**SUBJECT: House Bill ("HB") No. 103 – Testimony in Support
Relating to the Employees' Retirement System**

Dear Chair Matayoshi, Vice Chair Garrett, and Members of the Committee:

The County of Hawai'i, Department of Human Resources, joins the City and County of Honolulu in support of HB No. 103, which seeks to amend the deadline by which the State and counties are required to furnish payroll and personnel transaction information to the Employees' Retirement System ("ERS") in an electronic format as specified by the ERS.

The County of Hawai'i is currently using a third-party software package for payroll and some of its personnel transaction processing. Since the passage of Act 87, SLH 2015, the Human Resources staff have worked with its software vendor to develop an electronic report for personnel transaction information. Efforts have been unsuccessful. The County is seeking a new system as well as other options for reporting.

The County of Hawai'i is fully committed to providing its personnel transactions to the ERS, as requested. Extending the deadline based on when final specifications are provided by ERS will allow more time to comply with the reporting requirements. The imposition of steep penalties to be applied on July 1, 2023 for failure to comply will cause a severe financial hardship.

The County of Hawai'i strongly supports HB No. 103 and requests your support in advancing this measure. Thank you for the opportunity to provide testimony.

Sincerely,


Waylen L. K. Leopoldino, Director
Department of Human Resources

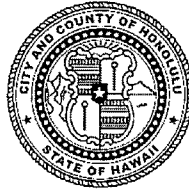
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DEPARTMENT OF HUMAN RESOURCES

CITY AND COUNTY OF HONOLULU

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RICK BLANGIARDI
MAYOR



NOLA N. MIYASAKI
DIRECTOR

FLORENCIO C. BAGUIO, JR.
ASSISTANT DIRECTOR

January 31, 2023

The Honorable Scot Z. Matayoshi, Chair
The Honorable Andrew Takuya Garrett, Vice Chair
and Members of the Committee on Labor and Government Operations
House of Representatives
State Capitol, Room 309
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Matayoshi, Vice Chair Takuya Garrett, and Members of the Committee:

SUBJECT: House Bill No. 103 / Senate Bill No. 213
Relating to the Employees' Retirement System

House Bill No. 103 / Senate Bill No. 213 was submitted on behalf of the City and County of Honolulu's (City) Mayor's package. This measure seeks to amend the deadline by which the State and counties are required to furnish payroll and personnel transaction information to the Employees' Retirement System (ERS) in an electronic format as specified by the ERS by linking the deadline to when final formats are received and when test files are provided. The City is in strong support of this measure.

In 2015, specific deadlines and penalties were put in place for compliance with the reporting requirements, the City was already providing its payroll and personnel transaction information to the ERS in electronic format, but nonetheless expressed strong concerns about the measure that would eventually become Act 87. Following the passage of Act 87, SLH 2015, City staff and our contractors have worked diligently with ERS staff towards compliance. Unfortunately, despite all parties putting in cooperative efforts, this project has evolved and is even more challenging than anticipated. Given the significant challenges, the City may not be able to meet the deadline.

The City is fully committed to transmitting payroll and personnel transaction information to the ERS in an electronic format that will work with both parties' systems. In fact, if it were only a matter of transmitting to the ERS the information we currently provide, as currently categorized, we are confident we would meet the current deadline. However, as the ERS worked to understand the various pay types and how they are used in order to correctly categorize them, they have asked us to make changes and

The Honorable Scot Z. Matayoshi, Chair
The Honorable Andrew Takuya Garrett, Vice Chair
and Members of the Committee on Labor and Government Operations
January 31, 2023
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each change adds to our timeline and jeopardizes our ability to meet the deadline. In addition, once changes are made, test files need to be sent to the ERS and the ERS needs to comment on those files in an ongoing process to ensure the files meet the ERS' requirements. The new provisions recognize the impact of this process on the employer's ability to meet the deadlines.

The need for an extension is urgent because the penalty for not complying with the deadline—that the employer must pay for its entire year's Retirement System contributions at the beginning of the fiscal year—would cause the City severe financial hardship. The City's Employer Contribution (excluding Act 153 contributions) to the ERS in Fiscal Year 2022 was \$214 million—which is normally paid monthly. The provisions for the stiff penalty are currently scheduled to be applied on July 1, 2023—which means if costs remain the same the City would have to pay \$214 million to the ERS on July 1, 2023. The City simply cannot afford to let that happen.

Based on the foregoing, we ask for your support in advancing this measure. Thank you for the opportunity to testify in strong support of HB 103 / Senate Bill No. 213.

Sincerely,



Nola N. Miyasaki
Director