Employees' Retirement System
of the State of Hawaii

# ERS Employer Update
July 16, 2019

Note: This abstract handout supplements the 2019 ERS Employer Update presentation. It is intended for general informational purposes, does not constitute a contract or other legal document and is subject to change.

Employees' Retirement System of the State of Hawaii
ERS Employer Update
July 19, 2019

ERS Overview
1) Defined Benefit Plan – Guaranteed retirement income based on salary and years of service
2) Maximum Allowance: Benefit Multiplier x Years of Credited Service x Average Final Compensation
3) Information from Employers is essential to determining eligibility for, and computing, retirement benefits

Benefit Calculations and the Importance of Employer Reporting
1. ERS is a defined benefit plan
2. These guaranteed lifetime retirement benefits are based on the employee's benefit category, years of service and highest salaries.
3. The basic formula in calculating your pension will be using 3 factors:
   1) The benefit percentage (Enrollment and CCR)
   2) The years of credited service (Personnel and Payroll files)
   3) Average Final Compensation or what is commonly referred to as AFC (Payroll Files)

Information from Employer
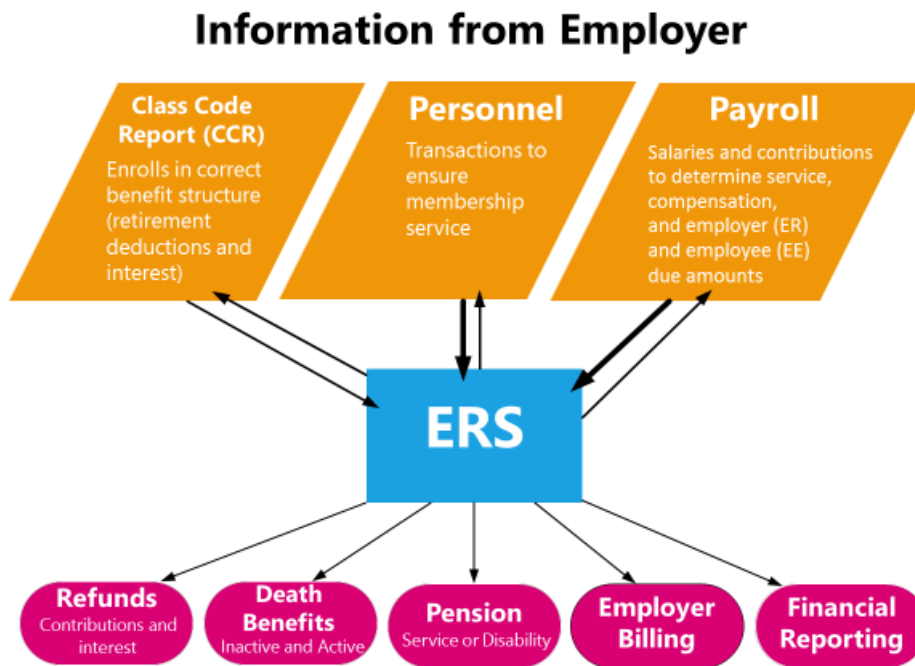
This is a high-level depiction of transactions that result in ERS benefits. ERS relies on a combination of all 3 sources of information.

All the information necessary to produce employee retirement benefits is provided by the employer.
1. Class Code Reports helps the employer enroll the employee in the correct membership benefit structure (for retirement benefits and ERS benefit multiplier %) and initiates the correct employee retirement contributions.

2. Personnel Transaction reports (Personnel Interface File) confirm accurate membership service credit (including FTE) and the demographic information provides ERS with accurate contact information.
3. Payroll Transaction reports (Work Reports) provide service and compensation information used for the member's AFC and, in addition, determines employee and employer contribution amounts due.
4. Resulting ERS Benefits over the lifetime of the member:
5. Refunds – upon termination prior to retirement
6. Death Benefits – Active and Inactive death benefits
7. Pension Benefits – Service and Disability retirement benefits
8. Employer Billing – Employers' contributions based on percentage of payroll and employer rates (General Employees and Police/Fire Employees)
9. Financial Reporting – Comprehensive Annual Financial Report (CAFR), Actuarial and Governmental Accounting Standards Board (GASB) Statement 67&68 Reports required for employers financial reporting for pensions

Reporting Related Effects:
Three major compensation and benefit-related variables to be considered when an employee's pay is being reported to the ERS.
1. Enrollment:
   - Class Code Reports are to help Employers with employee enrollment
   - The CCR does not enroll members – preliminary information

2. Payroll through Work Reports and Personnel Reporting through PIF:
   - Determination of Service and Average Final Compensation

3. Compensation Definition:
   - Tier 1 – Includes all pay types for service performed
   - Tier 2 – Excludes overtime, supplemental pay, bonuses, most differentials
   - Employer Contributions are based on ERS-eligible compensation

4. Related to employer contributions – Pension Spiking costs for excessive non-base pay during employee's last years of employment

2019 Legislation – Act 53, SLH 2019
Recovery of overpayments of ERS benefits. Overpaid benefits are designated as a debt due and owing to the ERS by the ineligible recipients of the overpayments.

Act 87/2015 – Employer Reporting (HRS Section 88-103.7)
1) Clarifies requirements for State and Counties to report personnel/payroll to ERS in ERS required format by 7/1/2020.
2) ERS to monitor progress of ERs and reports to state Department of Budget and Finance and the Legislature
   - As with last year, the ERS will again be requesting that directors provide the ERS with a summary of each department's progress in addressing any discrepancies or issues regarding personnel and payroll reporting.
ERS's Current Interpretation of 88-103.7:
3) Evaluation of payroll and personnel reports from July 2020 to June 2021

4) Penalties imposed for noncompliance after June 2021:

Employer Contributions to be paid to ERS at the beginning of the fiscal year rather than on a monthly basis. Any unpaid balance will be subject to interest at investment rate of 7%

5) Previous Legislative Reports (2015 – 2018) are posted on the ERS website for your reference: http://ers.ehawaii.gov

6) There were two memos sent out from ERS Executive Director Thom Williams during this year:

    a) Payroll Reporting Clarifications (dated April 5, 2019)

    b) Request for Pay Types and Descriptions Reported to ERS (dated May 7, 2019)

    Both are posted to our website.

Group and Class Code Tables – Employer Contribution Rates Update

	Previous Class	New Class
Elective Officers who chose not to be members of ERS. (Includes an elective officer serving after 9/30/2008 who makes an election to be excluded from ERS membership under 88-42.6, HRS (Act 47/2008)	L0	R1
Retirants serving as an elective officer and elected to continue to receive ERS pension while serving as an elective officer under 88-42.6, HRS (Act 47/2008) (Retirement allowance not suspended)	L0	R1
Any member of the legislature (State Senate or State House of Representative) who retires at age 65 or older, receives a service retirement allowance, and continues to fill an elective position under 88-73(d), HRS.	L0	R1
Judges and Elective Officers (contributory members) who have attained their maximum benefit allowance and are not required to contribute to ERS. Act 90/1971 "Paper Retirement" repealed under Act 47/2008, Sections 88-59.6, 88-61(c), 88-73(e) effective 10/01/2008.	J0	M0

Changes:
New Class Codes for ERS-eligible positions filled by ERS non-members.
The ERS Group and Class Code Tables have been updated to address the employer contributions for these groups of employees who are not eligible for ERS benefits:
    (1) R1
    Non-ERS Members in ERS-Eligible positions – primarily elective officers who choose not to be members of ERS (please refer to Form ERS 203 for specific requirements)
    (2) M0
    Retirees returning to service after attaining their maximum allowance limitation from their previous employment

Elective officers and judges who retired under special provisions allowing them to freeze their retirement benefits after reaching 75% limitation

Employer Contributions are due for these positions.

Employer Contribution Rates
Reminder:
Please note the Employer Contribution Rate increases for this fiscal year and next fiscal year.
Rates will remain at the July 1, 2020 rates going forward.

Employer Contribution Rates by Fiscal Year	Job Categories			
	General Employees	Special Categories (Police Officers, Firefighters and Contributory Corrections and Water Safety Officers)	Retiree Return to Work Act 179 – General Employees	Retiree Return to Work Act 121 – Special Categories (Police Officers, Firefighters and Contributory Corrections and Water Safety Officers)
7/1/2017 – 6/30/2018	18.00%	28.00%	14.20%	20.90%
7/1/2018 – 6/30/2019	19.00%	31.00%	15.20%	23.90%
7/1/2019 – 6/30/2020	22.00%	36.00%	18.20%	28.90%
7/1/2020 until statutory changes are implemented	24.00%	41.00%	20.20%	33.90%

Class Code Reports (CCR)
1. Purpose
    - Secured method to provide Employers retirement class code within 5 business days from receipt
    - Minimizes miscoding errors
    - No shortage or overage of retirement contributions

2. Departments required to submit CCR for all new and returning members in ERS eligible positions
3. Workflow of CCR
    - Department submits CCR via secured method to ERS for potential hires that are being hired in an ERS eligible position
    - ERS's IS section runs the CCR against the ERS's database to see if the potential hire is known to our database. (Nothing from the CCR is inputted into the ERS's database)
        - If potential hire is not known, CCR is auto-filled with H1 code as it is assuming that this hire is new to ERS. (Issues when SSNs are incorrect as it may autofill with incorrect code)
        - If potential hire is known, CCR is reviewed for these potential hires to provide the appropriate code.
    - Once all codes are completed on the CCR, ERS returns the CCR to the department via secured method
4. Important that information is correct on the CCR and that it is only for ERS eligible positions as it could impact the code returned

Miscoding Process
1. Importance of Group Code and Class Code
2. Updated department responsibilities for retirement miscodings – Overview of process given to departments by HIPAY team from ERS in October 2018.
3. Identify Miscoding/Inform ERS
4. ERS to review and determine corrections to personnel/payroll
5. Memo to department to correct miscoding and send pay adjustments if applicable
6. Pay adjustments received/processed for Tier changes to eligible compensation
7. ERS to determine deficient/excess amounts
    - Deficient amounts will be sent to employers to collect
    - Excess contributions (including interest) will be refunded directly to the employee

Personnel Interface File (PIF)
1. Purpose
    - Establish member's ERS membership date
    - Grant service credit by using it in conjunction with Payroll information used for pension calculations
    - Confirms breaks, leaves, pay changes, and terminations

2. Personnel Conversion Project
    - Loading backlog files from 2010
    - Challenge is files must be loaded in chronological order and team is updating logic on how the transactions are being fed into the system to streamline issues that are arising
    - Processed approximately 850,000 transactions

3. Common File Errors
   - ◦ NOAC Change Codes: 999 – cancellations   and   991 – corrections
     - o Corrective transactions need to match original action
     - o Ex. TRMGEN must be cancelled with a TRMGEN NOAC code accompanied with a 999 NOAC change code and a new TRMDSM submitted separately.
   - ◦ Blank or Null fields
     - o All fields need to be completed or file errors and cannot be processed
     - o Need to go back to Department for corrections

4. Specific File Issues (examples)
   - ◦ Do not report records for under 50% FTE positions which are not ERS membership
   - ◦ Differential codes with no differential pay amount
   - ◦ Termination code reported but no last day worked
   - ◦ If retiree left in 'not in good standing' sick leave cannot be used to increase benefit. Use remarks section to notate if the employee left in a "not in good standing" capacity.

Payroll File – Work Reports

▶ Source of payroll information:
  ◦ 600-byte text file – ERS imports into pension system

```
HV3FILENAMEERBL_082018.TXT              V022018D081510
D000113880LAST NAME                     FIRST NAME                                              0030120000000000000
D000169205LAST NAME2                    FIRST NAME2                      S                      0030120000000000000
```

  ◦ Payroll Information Template – ERS staff manually enters

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
					Name Suffix Code	Employer Code	Billing Location Code	Pay adjustment	Pay adjustment description	Pay Number	ER Tran Type	Retireme nt Group	Retireme nt Class	FTE Percent	Contract Type	Pay Rate Code
1	SSN	Last Name	First Name	Middle Name												
2	xxxxxxxxx	Member	Sample	X		002	011			0000000000	01	31	H1		12	SL
3	xxxxxxxxx	Member	Sample	X		002	011			0000000000	01	31	H1		12	SL

▶ File layout with field descriptions has been posted to ERS website. Please note that pay related fields should only include ERS eligible compensation.

Version 2 Template (Act 163) Payroll File - **Detail Record** Version: 02

Seq	Field Name	Length	Numeric Length	Starting Position	Ending Position	Description	Field Content
1	Record Type	X(1)	1	1	1	Indicates the type of record being reported.	Valid Values: "D" = Detail Record - This is the only valid for the detail record.
2	SSN	X(9)	9	2	10	The member's Social Security Number without hyphens.	Numeric only. Note: No bogus numbers will be accepted. (Ex: 000000000, 111111111, 222222222, 333333333, 444444444, 555555555, 666666666, 777777777, 888888888, 999999999, 123456789, or 987654321).

Version 2 Template (Act 163) Payroll File - **Detail Record** Version: 02

Seq	Field Name	Length	Numeric Length	Starting Position	Ending Position	Description	Field Content
26	Gross Pay Amount	S9(10)V99	13	298	310	The total Semi-Monthly gross pay (Total of all Pay Fields excluding Base Pay): Regular Pay Amount + Vacation Pay Amount+ Workers Comp Pay Amount + Sabbatical Pay Amount + Other Pay Amount + Differential Pay Amount Recurring + Differential Pay Amount Non-Recurring + Retro Pay Amount + = Gross Pay Amount	Numeric Only Leading zeroes and two implied decimal positions. The Pay Amount fields must sum to the reported Gross Pay Amount. Refer to Section 88-21.5 of the Hawaii Revised Statutes for definition of Compensation and type of pay reported in this field.
27	Regular Pay Amount	S9(10)V99	13	311	323	Based on bargaining unit pay table for SR rating and step, adjusted for FTE minus any LWOP (leave without pay salary adjustment). Does not include differential, overtime, vacation pay etc.	Numeric Only Leading zeroes and two implied decimal positions.
28	Normal AS Contrib Amount	S9(10)V99	13	324	336	Normal Annuity Savings Contributions = (Gross Pay Amount - Vacation Pay Amount) * retirement contribution rate Note: Do NOT subtract Vacation Pay Amount from Gross Pay Amount for any member hired before 01/01/1971. Retirement contributions must be paid on vacation pay for members hired prior to 01/01/1971.	Numeric Only Leading zeroes and two implied decimal positions. Determination of Normal AS Contribution if ER Trans: Code 2 normal AS = Gross x Contribution Rate Code 1 normal AS = Total Normal AS for all transactions in Earning period - Code 2 transaction amount [Codes 1 and 2 per field 12]

▶ File layout reminders:
  ◦ Field 29 – Normal AS Tax Indicator
    ◦ Some payroll files continue to report a pre-tax '01' Normal AS Tax Indicator when WC Pay is reported. Update your systems if tax treatment of contributions is not all pre-tax. Refer to last year's abstract for details on ERS calculation of pre-tax / post-tax split.
  ◦ Field 31 – Addl AS Amount 1
    ◦ Addl AS Amount 1 field is to report additional contributions for the purpose of purchasing service by payroll deduction. Do not include "make-up" or "retroactive" contributions not tied to a purchase of service election/authorization. Report these under Normal AS (Field 28).

Payroll File – Work Reports cont'd

▸ Payroll Reporting Impacts – these are some of the primary fields impacting these calculations:

  ◦ Service Credit

Regular Pay Amount	Based on bargaining unit pay table for SR rating and step, adjusted for FTE minus any LWOP (leave without pay salary adjustment). Does not include differential, overtime, vacation pay etc.	WC Pay Amount	The Worker's Compensation Pay Amount being reported while the member is on an industrial leave. **[Note: Normal contributions reported on the WC Pay Amount will be placed in a post tax contributions contribution "bucket"]**
Base Pay	Base Pay is what a salaried employee would earn for the payroll period when working 100% of the time (based on the bargaining unit pay table for their SR rating and step). Base pay should not be adjusted if an employee is on a 1 year sabbatical.	FTE Percent	The member's Full-Time Equivalent percentage.
Num of Hours Worked	Number of regular hours worked in the reported payroll period. (Exclude OT, other pay)	Standard Work hours in period	Standard hours eligible to be worked in a payroll period.

  ◦ AFC

WC Pay Amount	The Worker's Compensation Pay Amount being reported while the member is on an industrial leave. **[Note: Normal contributions reported on the WC Pay Amount will be placed in a post tax contributions contribution "bucket"]**	Base Pay	Base Pay is what a salaried employee would earn for the payroll period when working 100% of the time (based on the bargaining unit pay table for their SR rating and step). Base pay should not be adjusted if an employee is on a 1 year sabbatical.
FTE Percent	The member's Full-Time Equivalent percentage.	Gross Pay Amount	The total Semi-Monthly gross pay (Total of all Pay Fields excluding Base Pay):

  ◦ Pension Spiking

Other Pay Amount	All other payments to the member not specifically defined on this layout.	Differential Pay Amount Non-recurring	This is the sum of all differentials (non recurring) paid for this payroll period.

  ◦ Example of incorrectly reported payroll information:

	Payroll file:	Correct values:
Reg Pay	$2,387.58	$2,010.59
Base Pay	$2,303.89	$2,513.24
Other Pay	$0.00	$376.99
FTE	91.7%	91.67%

  ▸ Service credit incorrectly granted if employee worked ½ of the month – calculation = 15 days instead of 13 days.
  ▸ FTE conversion for part-time employee overstated – benefit formula converting to 0.917 instead of 0.9167
  ▸ AFC understated – benefit formula using $2,303.89 instead of $2,513.24
  ▸ Pension Spiking Non-Base Pay incorrect – could result in increased pension spiking cost

Payroll File – Work Reports cont'd

▸ Payroll Information Template

	SSN	Last Name	First Name	Middle Name	Name Suffix Code	Employer Code	Billing Location Code	
1								
2								
3								
4								
5								
6								
7								

Instructions | Insert ERS Memo | **File Naming Conv** | Retro-Overpymt Rptd | Payroll Information Template | Help

- ◦ To report additions, breakdowns, and adjustments not reported via 600-byte text files.
- ◦ On ERS website under Employers >> Employers Forms
- ◦ Transmit via a CCR, Personnel or Payroll Axway account. A temporary account can also be requested but file must be ready to be sent before requesting the account.
- ◦ Do not delete tabs, name files as shown on 'Filing Naming Conv' tab, complete 'Insert ERS Memo tab' with your contact info and brief description of reason for template, include ERS contact if ERS personnel requested info.
- ◦ Retro-Overpymt Rptd tab is for ERS to provide employer with information on what is in our system if applicable.
- ◦ Net change should be reported instead of corrected value if payroll info was previously reported.
- ◦ Tier II should not include pay reported under Other Pay or Differential Pay Non-recurring fields since pay not eligible.
- ◦ For each row, verify amount reported under the Gross Pay field is equal to the sum of the ERS eligible pay reported under the following fields:
  Reg Pay + Differential Pay Recurring + Vacation Pay + Differential Pay Non-recurring + Workers' Comp Pay + Retro Pay + Sabbatical Pay + Excess Reg Pay + Other Pay

▸ Staff completing templates should work with those familiar with the creation of the ERS file and how payroll records are mapped to the ERS fields so that templates can be completed properly.

Claims for Membership Service

1. Cost to purchase service to increase
   - Current cost based on contribution rate
   - Effective July 1, 2020, cost based on actuarial cost

TIME FRAME	CALCULATION	COST
Prior to June 30, 2020	Contribution rate per months	$7,205
After July 1, 2020	Actuarial cost to provide the accurate lifetime pension increase for retiree	$56,330

2. ERS 243 new claim form effective September 1, 2017
   - Do not distribute EC&B 24 Claims for Service
   - ERS 243 available on ERS website

3. Only periods prior to membership date
   - Personnel documents required
   - Payroll information required on ERS template
   - Employment excluded from ERS membership not creditable (ie: 89 day, emergency or legislative session hires.)

4. No payroll deduction for purchases effective July 1, 2020
   - Possible tax issue of sheltering (pre-tax) income due to increase in cost
   - Current process due to HiPay changes, ERS will send notification to Payroll for members who request for deduction of additional contributions for purchase of additional service credits

Retiree Return to Work

1. Retiree Return to Work (Section 88-9, Hawaii Revised Statutes)

Position Type	Required Break	Impact to Pension	ERS 209	Class Code Reporting
Non ERS Membership	6 months	None. Pension continues if employed after the break.	Yes	No
Difficult to Fill or Labor Shortage *	12 months	None. Pension continues if employed after the break.	Yes	Yes
ERS Membership	No	Pension suspended.	No	Yes

Difficult to Fill or Labor Shortage must be identified & approved by the Director or Chief Executive of Human Resource for the appropriate jurisdiction and reported annually to the State Legislature.

2. Employers Responsibility

   o Ensure that re-employment of retiree complies with HRS 88-9 and results in retiree remaining "retired" pursuant to IRS laws
   o Independent Contractors:
      i. Determine whether there is an employer – employee relationship
      ii. IRS does not focus on what the appointment is called
      iii. File form SS-8 with IRS to have IRS assist in making determination for compliance

3. Violation

Violation by:	Penalties:
Retiree	1) Reimbursement of pension plus 8% interest; 2) Retirement contributions for employment plus 8% interest; and 3) Administrative expenses incurred by ERS.
Employer	1) Employer penalty based on salary paid to retiree plus 8% interest; and 2) Administrative expenses incurred by ERS. 3) Possible employment taxes per IRC Section 3509
ERS	Loss of tax qualification status: - Tax on employee contributions when made; - Tax on ERS benefits when vested; - 10% penalty for all distributions made prior to age 59½; - No refund on rollovers to IRA or other tax-qualified arrangement; and - Loss of eligibility for ERS benefits to be exempt from reporting as W-2 wages & FICA taxation

Membership Impact

1. Unused Sick Leave "Not In Good Standing"
   o Employers must indicate "not in good standing" status in the Remarks of the Personnel document or on the audited sick leave statement
   o If no notation, ERS will credit the unused sick leave which meet the minimum days of 60
   o Late reporting of "not in good standing" status:
      i. Results in Retiree overpayment of pension
      ii. Recoupment of overpaid pension

2. Active Death Benefits - Late reporting of last salary for deceased employee
   o Delays ERS from processing death benefit to beneficiary who is depending on benefit

Technical Support

- Contact us to create / modify Axway accounts, passwords, folders, and distribution groups
- Use appropriate Axway accounts and folders to send / retrieve files
- <u>Reminders for Class Code Reports:</u>
  - Provide us with all necessary data
  - Complete all required fields; verify values and data types
  - Unexpected data can be lost or delay processing
- Inform ERS of any changes in your payroll / personnel contact information or computer system

ERS Contact Information

- ERS Website: http://ers.ehawaii.gov

- Online Information
  - Membership Category (Plan)
  - Service Credit
  - Contributions (Hybrid and Contributory)
- Benefits Calculator
- Employer Information
- Group and Class Code Tables
- Email: dbf.ers.sss@hawaii.gov
  - Subject line: "Employer Team" – Topic/issue

- Oahu: (808) 586-1735
- Kauai: (808) 274-3010
- Maui: (808) 984-8181
- Hawaii: (808) 974-4077