Employees' Retirement System of the State of Hawaii

ERS Employer Update
July 16, 2019

Agenda

- Welcome / Introduction
- ERS Overview
- 2019 Legislation
- Act 87 / SLH 2015 (HRS Section 88-103.7)
- Enrollment, Personnel and Payroll Files and Technical Support
- Reminders
- Questions/Discussion

Benefit Overview

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Information from Employers
Legislation and Act 87/2015
Group / Class Code Changes
Employer Contribution Rates

Benefit Calculation

Maximum Allowance Formula:
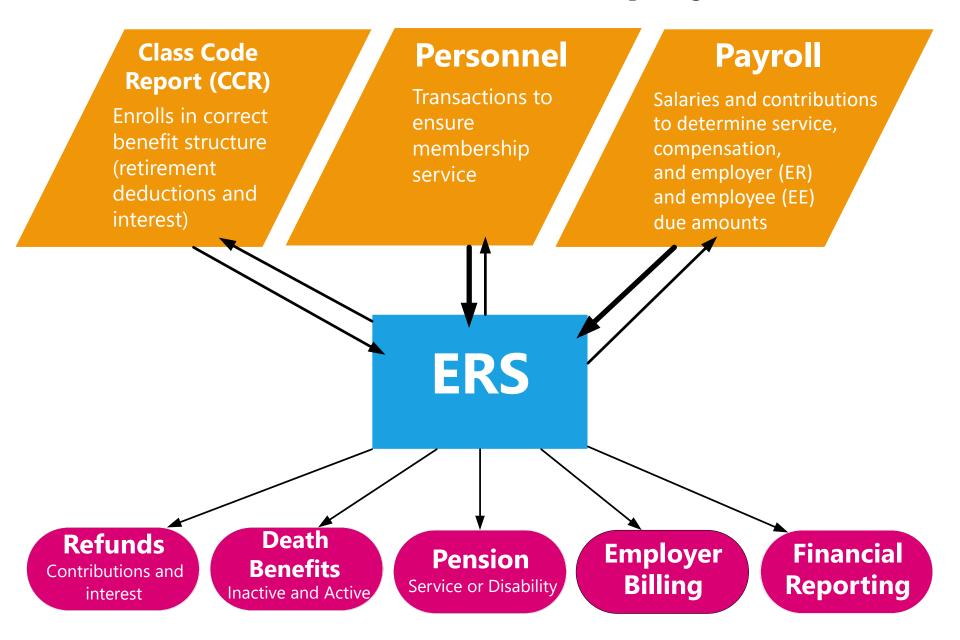
Benefit Multiplier (Membership Plan %)

X

Years of Credited Service

X

Average Final Compensation
(Highest 3 or 5 Years)

Information from Employer

Class Code Report (CCR)
Enrolls in correct benefit structure (retirement deductions and interest)

Personnel
Transactions to ensure membership service

Payroll
Salaries and contributions to determine service, compensation, and employer (ER) and employee (EE) due amounts

ERS

Refunds
Contributions and interest

Death Benefits
Inactive and Active

Pension
Service or Disability

Employer Billing

Financial Reporting

Reporting Related:

1. **Class Code Reports: Enrollment Information for Employers**
   - Tier 1 – members before July 1, 2012
   - Tier 2 – members after June 30, 2012
2. **Payroll and Personnel Reporting: Service and Average Final Compensation**
3. **Compensation Definition, Employee and Employer Contributions**
4. **Retirement "Pension Spiking"**
   - Excessive "non-base" pay during last years of employment

2019 Legislation – Act 53

▸ Act 53/SLH 2019 (HB 981) Overpayment recovery of ERS benefits

▸ Specifies that overpayments of refunds and retirement benefits constitutes a debt due and owing to the ERS by recipients of overpayments.

Act 87/2015 – Employer Reporting

HRS Section 88-103.7

- State and Counties to furnish payroll and personnel transactions by required format
- Clarification:
- Monitoring of progress through 2020
- Evaluation: July 2020 to June 2021
- Employer contributions "penalty" after June 2021
- Previous Reports on ERS website

Group and Class Code Tables

Employer Contribution Rates will now apply to the following:

	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

Employer Contribution Rates

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%

Enrollment and Personnel

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Class Code Reports
Personnel Interface File

Member Enrollment

- Class Code Reports (CCR)
  - Electronic file of ERS eligible hires sent by employers to ERS – doesn't create ERS records
    - Method to provide Employers the retirement class code for ERS eligible hires
    - Employers requests retirement class codes for new and returning members based on ERS records – matching based on correct info
  - Importance
    - Minimizes miscoding
    - Receives accurate retirement contribution deductions

Member Enrollment

▶ Class Code Reports (CCRs) cont.

○ Method
  • Requests & responses are made through secure file transfer handled by ERS IT section
  • ERS provides class codes within 5 full business days
  • CCR inquiries may be sent to: dbf.ers.ecb-enroll@hawaii.gov

Miscoding Process

- Group & Class determine eligibility, contributions, & benefit calculations.
- Inform ERS of any potential miscodings due to:
  - Breaks-in-service
  - Missing personnel or payroll information
  - Mismatch between personnel & payroll systems
- ERS will review and determine corrections to personnel & payroll information.
  - Employers may collect deficient contributions
  - ERS will pay excess contributions and interest

Miscoding Example

▸ Hybrid Tier I miscoded as Hybrid Tier II

CLASS & TIER	RATE	GROSS PAY	CONTRIBUTIONS RECEIVED	DUE	EXCESS/ (DEFICIENCY)
Hybrid II	8%	$1000	$80	$80	$0
Hybrid I	6%	$1000	$80	$60	$20+INTEREST
Hybrid I	6%	$1500	$80	$90	($10)

▸ Change in Gross Pay due to Tier I/II eligible compensation
  ◦ Tier I: Gross pay including OT, TA, Bonuses, Supplements, & Differentials
  ◦ Tier II: BASE/REG PAY

Personnel Interface File (PIF)

- Purpose
  - Electronic personnel information used in conjunction with Payroll information used for pension calculations
  - Confirms ERS eligible hires/terms, breaks, leaves, pay changes.

- Personnel Conversion Project
  - Processed backlog files ~ 850 K

PIF CORRECTION EXAMPLES

EFFECTIVE DATE	NOAC	ERS ACTION CODE	NOAC CHANGE CODE	RESULT
7/1/19	APPNEW	APPNEW	NA	ORIGINAL
7/1/19	APPNEW	APPNEW	999	CANCELLED
7/2/19	APPNEW	APPNEW	NA	REPLACED

File Errors
   *999 – cancellations   *991 – corrections
   Corrective transactions need to match
      original action
   Required fields cannot be left blank or null

Personnel Interface File (PIF)

- Specific Issues
  - Invalid FTE (under 50%), no ERS membership
  - Differential code reported but no differential amount
  - Termination code reported but last day worked is missing
  - City & Zip code do not match per USPS
    - Makakilo should be Kapolei
  - Zip code needs to be 5+4 format:
    - 967070000

Payroll Files

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Work Reports
Source and Impacts
File Layout
Payroll Templates

Payroll File – Work Reports

▸ Source of payroll information:

◦ 600-byte text file (imported)

```
HV3FILENAMEERBL_082018.TXT              V022018081510
D000113880LAST NAME                     FIRST NAME                                    0030120000000000000
D000169205LAST NAME2                    FIRST NAME2                    S              0030120000000000000
```

◦ Payroll Information Template (manual)

	A	B	C	D	E Name Suffix Code	F Employer Code	G Billing Location Code	H Pay adjustment	I Pay adjustment descriptio	J Pay Number	K ER Tran Type	L Retireme nt Group	M Retireme nt Class	N FTE Percent	O Contract Type	P 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

Payroll File – Work Reports

▸ ## Source of payroll information:

File layout with field descriptions posted to ERS website. 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]**

Payroll File – Work Reports

▶ **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

- Payroll Reporting Impacts
  - 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.

Payroll File – Work Reports

▸ Payroll Reporting Impact example

	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
  · Service credit incorrectly granted if employee worked ½ of the month
  · FTE conversion for part-time employee overstated
○ AFC
  · AFC understated
○ Pension Spiking
  · Non-Base Pay incorrect, could result in increased pension spiking cost

Payroll File – Work Reports

▸ **Payroll Information Template**

◦ To report additions, breakdowns, adjustments not reported via 600 byte text files.

◦ On ERS website under Employers >> Employers Forms

◦ Transmit to ERS via CCR, Personnel or Payroll Axway account. Request a temporary account, if needed, only when file is ready for transmission.

◦ 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

	A	B	C	D	E	F	G
1	SSN	Last Name	First Name	Middle Name	Name Suffix Code	Employer Code	Billing Location Code
2							
3							
4							
5							
6							
7							

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

Payroll File – Work Reports

▸ **Payroll Information Template Issues**

- ◦ 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
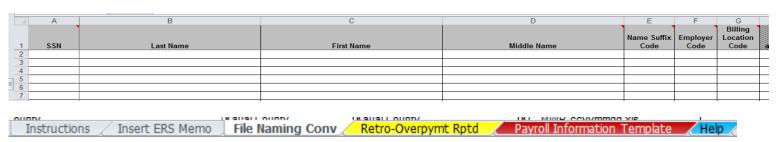
  - • Reg Pay +   Differential Pay Recurring +
  - • Vacation Pay +   Differential Pay Non-recurring +
  - • Workers' Comp Pay +   Retro Pay +
  - • Sabbatical Pay +   Excess Reg Pay
  - • Other Pay +

	A	B	C	D	E	F	G	
1	SSN	Last Name	First Name	Middle Name	Name Suffix Code	Employer Code	Billing Location Code	
2								
3								
4								
5								
6								
7								

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

Claims for Service

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Claim Now!
Certification and Requirements

Claim Your Service – Purchase Now!

▸ Certification based on Actuarial Factors (July 2020)

Example: Hybrid member purchasing 2 years of military service

TIMEFRAME	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

Claims for Service – ERS 243 Member Information Replaces ECB 24

▸ Submit requests for service prior to your membership date (i.e. Professional Improvements, active duty military service)

▸ Payroll Deductions: Not allowed beginning July 1, 2020

◦ Possible tax issue of sheltering (pre–tax) income due to increase in cost.

Retiree Return to Work

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Requirements
Employer Responsibilities
Impacts

Retiree Return to Work – Requirements

Position Type	Required Break	Impact to Pension
Non ERS Membership	6 months	None. Pension continues if employed after break.
Difficult to Fill or Labor Shortage *	12 months	None. Pension continues if employed after break.
ERS Membership	None	Pension suspended.

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

Retiree Return to Work

- Responsibility:

  ○ Employers and ERS responsible and liable for re-employment of retirants.

  ○ Employer must determine if re-employment of retirant complies with HRS 88-9 and whether re-employment of retirant results in retirant remaining "retired" pursuant to IRS laws.

Retiree Return to Work

➢ INDEPENDENT CONTRACTOR–Employer Responsibility:

Ie: Employer hires retiree who has been retired less than 6 months as an independent contractor

- o Employer must ensure that there is no employer – employee relationship

- o IRS does not focus on what the appointment is called.

- o Internal Revenue Service (IRS) – Able to assist Employer to determine whether retiree is an employee, file Form SS-8 with IRS

Retiree Return to Work

➤ Violation of Employment of Retirants

  o Retiree: Repayment of pension plus interest for the violation period

  o Employer: Penalty owed to ERS based on salary retiree was paid during overpayment period

Retiree Return to Work

ERS Tax Qualification Consequence

➤ Impact if ERS loses tax qualification status
  o Tax on employee contributions when made;
  o Tax on ERS benefits when vested;
  o 10% penalty for all distributions made prior to age 59 ½;
  o No refund rollovers to IRA or other tax-qualified arrangement; and
  o Loss of eligibility for ERS benefits to be exempt from reporting as W-2 wages & FICA taxation.

Unused Sick Leave Credit

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"Not in Good Standing" Reporting
Impacts to Member Benefits

Membership Impact

➤ Unused Sick Leave NOT in "Good Standing"

  ◦ Late or non-reporting of terminated member who is not in "good standing", results in overpaid pension which ERS is required to recoup from the retiree

Membership Impact

➢ Scenario: Employer changes reporting of retiree's status to "not in good standing"

➢ Impact:
   $12,441pension overpayment due to erroneous crediting of 1year 4months unused sick leave

Active Death Benefits

» Late Reporting Impacts

Membership Impact

➤ Active Death Benefits

◦ If last salary of deceased employee is not reported timely to ERS, ERS is unable to pay death benefits to the beneficiary

◦ Delayed processing of the death benefit to the beneficiary for 6 months or more.

Technical Support

» **Axway Accounts Reminders**

Technical Support

- Contact us to create / modify Axway accounts, passwords, folders, and distribution groups

- Use appropriate Axway accounts and folders to send / retrieve files

Technical Support

Reminders:

- 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

Closing Reminders

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Neighbor Island Briefings
ERS Contact Information

Neighbor Island Briefings

- Kauai
  - Monday, July 29
  - Kauai State Building, 2nd Floor Conference Room
- Maui
  - Wednesday, July 31
  - David K. Trask, Jr. Building, HGEA Conference Room
- Hawaii
  - Tuesday, August 13
  - Aupuni Center, Suite 1

ERS Contact Information

- ERS Website: ers.ehawaii.gov
- Phone: (808) 586-1735
- Online Information
  - Membership Category (Plan)
  - Service Credit
  - Contributions (Hybrid and Contributory)
- Benefits Calculator
- Employer Information and Memorandums
- Group and Class Code Tables
- Email: dbf.ers.sss@hawaii.gov
  - Subject line: "Employer Team …"

Mahalo for Attending!

Employees' Retirement System