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EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
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OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

December 26, 2019

The Honorable Ronald D. Kouchi
President and Members
of the Senate
Thirtieth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Scott K. Saiki
Speaker and Members of the
House of Representatives
Thirtieth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Saiki and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the Status of Employer Reporting of Information 2019 report, as required by Act 87, Session Laws of Hawaii 2015. In accordance with Section 93-16, Hawaii Revised Statutes, a copy of this report has been transmitted to the Legislative Reference Bureau and the report may be viewed electronically at <http://ers.ehawaii.gov/resources/reports-to-legislature>.

Sincerely,

A handwritten signature in blue ink, appearing to read "Craig K. Hirai", is positioned above the printed name and title.

CRAIG K. HIRAI
Director of Finance

Enclosure

c: Legislative Reference Bureau

ec: Governor's Office: Gov.ReportsDistribution@hawaii.gov
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EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII

ACT 87, SESSION LAWS OF HAWAII 2015
RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

STATUS OF EMPLOYER REPORTING OF INFORMATION
2019

This is the final status report on the State, the City and County of Honolulu and the Counties of Hawaii, Maui and Kauai departments' and Agencies' ("State and Counties") reporting of personnel and payroll information to the Employees' Retirement System (ERS) as required by Section 88-103.7 under Act 87, Session Laws of Hawaii 2015.

Assessment of Progress

During this 5th year of compliance monitoring and evaluation, ERS finds that most employers have tried to improve on their personnel and payroll transmittals. However, the balance of compliance and improvement is a delicate one. During 2019, the Department of Accounting and General Service (DAGS) instituted its Hawaii Pay upgrade and we expected that their new system would improve their reporting accuracy. We discovered that in serving multiple purposes, DAGS's new payroll system caused significant changes to the data provided to the ERS and further resulted in erroneous calculations, missing data and incompatible information. The County of Maui also implemented a new Human Resources/Payroll system in 2019. While their reporting of current pay has improved, they continue to work with their vendor on correctly reporting retroactive pay and salary adjustments. DAGS has stated that they are not able to provide ERS with adjustments for previous erroneous reports, in the format that ERS requires. This is a common roadblock for all employers.

In addition to the State of Hawaii and the County of Maui, the State Public Charter Schools, the County of Kauai, and the Hawaii County Department of Water Supply have initiated new reporting systems or modifications to their existing systems. We are in the process of receiving and reviewing regular and test files from these reporting entities. As expected, when a new vendor is hired or an upgrade is introduced, the implementation process from beginning to end is time- and resource-intensive on both the ERS and the employer.

We found in the case of all employers, field definitions must be under constant review and reinforcement. When employers retain third party vendors or when there is a turnover in personnel, payroll or technology staff, misunderstanding or misinterpretation of pay types, the accuracy of pay, service and contribution data is common. ERS often discovers these errors long after the processing and posting of an employee's records to the ERS's benefit computation system. Correction adjustments to erroneous posted information are painstaking and require manual processing.

With regards to personnel data, the ERS has completed a preliminary review of 17 reporting agencies who are reporting electronically and distributed discrepancy reports for correction and clarification. Employers have been collaboratively responsive in providing the ERS with payroll and personnel data within the parameters of their systems and resources.

Proposals for Improvement

To address the above, the ERS proposes two solutions – an intermediate solution and a long-term solution.

- A. The intermediate solution addresses the payroll adjustment files that none of the employers is, or will be, able to provide. ERS proposes to develop, with its vendor, an intermediary adjustment process which will create the “net change” transaction based on the employer’s pay adjustment information. Preliminary conceptual designs would include a self-service portal for the employers in which they may specify employees, pay periods, and payroll transactions to be adjusted. This intermediary adjustment process will “translate” the employer’s adjustment information into ERS’s required format. The self-service portal should be accessible for the employer at the time adjustments are calculated and prepared and will not have to be submitted with the payroll file, thus providing flexibility and convenience for the employers to verify their previous transactions, input their corrected transactions and certify the adjustment amounts paid to the employee.
- B. The ERS finds that it has been tasked with the responsibility of “controlling” personnel actions and payroll events without the authority of enforcement. Based on our joint efforts in working on ERS requirements for reporting personnel and payroll data, we have concluded that for a long-term solution, ERS’s statutory requirements and the resulting reporting requirements must be substantially revised. The ERS has developed a list of potential proposals which if adopted would facilitate the employer reporting process efficiency. This “long term” solution would require restructuring and modifying ERS benefits. These modifications might include:
 - 1. Changing ERS definitions of service, compensation, finalization and related requirements
 - 2. Legislative changes to modify retirement benefits including
 - a. Membership Eligibility
 - b. Multiple Employee Positions
 - c. Service Credit (Service Credit Purchase, Workers’ Compensation Credit, Part-time, Full Time Equivalence, etc.)
 - d. Average Final Compensation
 - e. Eligibility Requirements
 - f. Contributions Requirements
 - g. Employer Requirements
 - 3. Revise obsolete statutes to reflect current definitions of employers (State and County departments and agencies), employment positions, practices, methods of pay and types of pay

4. Revision of benefit variables (i.e., service credit, salaries, ERS-eligibility, etc.) for specific departments, agencies and employee categories to reflect the reporting entity's definitions and revise benefit computations and benefits accordingly
5. Levy interest and actuarial cost for employer enrollment errors and contribution deficiencies
6. Allow for ERS discretion to decline membership of new State and County reporting agencies (i.e., State Public Charter Schools) until they comply with basic employer payroll and human resource responsibilities and guidelines
7. Bargaining union agreement salary increases to be paid prospectively
8. Funding and resources to support ERS initiatives and compliance

With legislative support and funding for these intermediate and long-term proposals, the ERS is optimistic that employer reporting will be greatly improved and that retirement benefits will be efficiently provided. Moreover, with statutory changes for clarification and consistency, ERS expects that retirement benefits will be fair for all public employees of the plan and more transparent to our members, the legislature, and, ultimately, the tax-payers of Hawaii.

Status of Reporting

ERS benefits (retirement, death, refunds, disability, etc.) are based on: (1) the employee's membership plan, (2) service credit and (3) average final compensation:

1. Membership requires that employers accurately enroll employees with the ERS upon eligibility and that they continue to report these employees under the correct membership plan – this will determine the employee's benefit multiplier and, in most cases, the retirement eligibility requirements of the employee.
2. Service credit is credited on a monthly basis and determined by the number of calendar days employed in paid status.
3. Average final compensation is defined as the highest three or five 12-month periods of salaries during the employee's membership and work history.

ERS is dependent on employers of the State and Counties to provide timely and accurate compensation information (based on payroll data) and service credit information (based on personnel data) on their employees to determine ERS benefit eligibility and entitlement. Employers are the sole source of this payroll and personnel data, which is transmitted to the ERS by semi-monthly transactions coinciding with their salary processing schedule.

To accurately and fairly compute an employee's benefit, the ERS runs personnel and payroll data through various formulas and calculations to determine membership service and eligible compensation. The data must meet a criterion of complex validations and specifications for these ERS computations to occur, and adjustments, corrections, and retroactive personnel and pay actions are recreated in a member's ERS record to define the benefit computation variables accurately. Most employers are only capable of providing "present" information – past information, even if corrected in the present, is virtually impossible for employers to provide to the ERS.

Act 87/2015 specifies that the ERS “shall require that information be furnished in electronic format and that information with respect to payroll and personnel transactions:

- (1) Allocate payments, including bonuses, salary adjustments, payments for compensatory time, and workers' compensation, to monthly or other periods as requested by the system;
- (2) Specify the purpose or nature of the payment; and
- (3) Indicate any changes or errors in payments that require correcting or updating.”

It states further that all departments and agencies “shall furnish the information required by the system pursuant to this section in the format required by the system.”

Although the requirements may be clear, meeting those requirements have proved to be arduous to impossible for both the employers and ERS. Unreported, erroneous or manually reported personnel and payroll records of transactions, adjustments, retroactive payments, and corrections require the ERS to research, request and manually adjust an employee’s or retiree’s benefit calculation record to accurately reflect the benefit for which an employee, beneficiary or retiree should be eligible or receive.

From the 2006 inception of the Pension Management Information System, when the ERS initiated electronic reporting requirements for payroll and personnel files, the ERS worked with the State and Counties individually on developing their file formats, reviewing field definitions and correcting erroneous data. When pension reforms were instituted in 2012 and subsequent years, the ERS has held briefings for employers in which we discussed, among other updates, the clarification and refinement of employer reports.

On July 16, 2019, ERS conducted its most recent annual meeting for all the State and County Payroll, Personnel, and Information Systems staff (“employers”) to provide an update on Act 87/2015. During these sessions, ERS reviewed the following compliance and evaluation periods:

Compliance review period:	Fiscal year July 2020 to June 2021
Compliance evaluation period:	Fiscal year July 2021 to June 2022
Noncompliance penalties:	July 2022 for the previous fiscal year

ERS offered assistance and individual employer file reviews on each employers’ particular issues and questions during both review and evaluation periods.

Employer meetings were also conducted for the County of Kauai (July 29, 2019), County of Maui (July 31, 2019), and County of Hawaii (August 13, 2019). In addition, the ERS Employer Team comprised of benefits, accounting, and information system staff members, continues to assist employers by conference calls, meetings and transferring of examples, situations and files addressing their concerns and issues.

Conclusion

During this and subsequent legislative sessions, the ERS will draft legislation to amend benefit computation requirements for ERS members, and accordingly, to revise and streamline our employer reporting requirements.

In the interim, the ERS will work with its Pension Management Information System vendor to develop an intermediary adjustment process for employers, will increase the number of employer briefings and communication efforts and will continue to work with the State and Counties on both the payroll and personnel files to comply with the provisions of Act 87/2015.