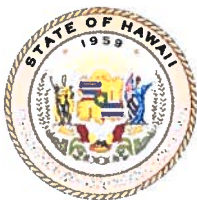


DAVID Y. IGE
GOVERNOR



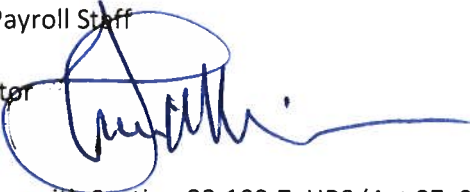
THOMAS WILLIAMS
EXECUTIVE DIRECTOR

KANOE MARGOL
DEPUTY EXECUTIVE DIRECTOR

**STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM**

September 1, 2022

TO: State and County Directors
State and County Personnel and Payroll Staff

FROM: Thomas Williams, Executive Director
Employees' Retirement System 

SUBJECT: Employer Reporting for Compliance with Section 88-103.7, HRS (Act 87, SLH 2015)

The Employees' Retirement System (ERS) would like to thank each sponsoring employer for meeting with ERS to discuss payroll reporting matters in accordance with the provisions of Section 88-103.7, HRS. As a reminder, Act 87 authorizes the ERS to obtain payroll and personnel transactions (including adjustments) from the State and Counties by requiring employers to report the information electronically in an ERS approved format.

This memo provides clarification and guidance as to the types of pay that may be reported as "compensation" to the ERS for benefit computation purposes.

Compensation as it pertains to employer reporting of pay to ERS, effective January 1, 2023:

- A. For an employee who has an ERS membership date **before** July 1, 2012 (Tier 1), compensation for ERS purposes is limited to the following:
1. Normal periodic payments of money for service the right to which accrues on a regular basis in proportion to the services performed. This is to reflect payments of the basic rate of pay or basic compensation as indicated on the employee's appropriate salary schedule or equivalent;
 2. Overtime;
 3. Differentials;
 4. Supplementary payments;
 5. Bonuses and lump sum salary supplements; and
 6. Elective salary reduction contributions under sections 125, 403(b), and 457(b) of the Internal Revenue Code of 1986, as amended.

Pay for "allowances" and/or "reimbursements" should not be reported to the ERS; provided, however, that meal allowances may be reported as overtime in the period they were earned if:



Employees' Retirement System
of the State of Hawaii

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(a) paid only when the employee works overtime; and (b) represents a component of compensation for overtime.

- B. For an employee who has an ERS membership date after June 30, 2012 (Tier 2), compensation for ERS purposes is limited to the following:
1. Normal periodic payments of money for service the right to which accrues on a regular basis in proportion to the services performed. This is to reflect payments of the basic rate of pay or basic compensation as indicated on the employee's appropriate salary schedule or equivalent;
 2. Shortage differentials, which are: (a) paid in addition to the payments identified in A.1 above; (b) paid based on services performed in a position identified by the appropriate jurisdiction as a labor shortage or difficult-to-fill position (as documented in personnel records or equivalent); and (c) accrued on a regular basis in proportion to the services performed;
 3. Elective salary reduction contributions under sections 125, 403(b), and 457(b) of the Internal Revenue Code of 1986, as amended; and
 4. Twelve-month differentials for employees of the department of education.

Pay for any other additional or extra payments, including but not limited to the following, should not be reported: overtime, supplementary payments, bonuses, lump sum salary supplements, allowances, reimbursements and differentials (other than differentials identified immediately above at items B.2 and B.4).

Please note that items A.2 through A.5 identified above (permitted for Tier 1 members) are not permitted by statute to be included in, and therefore should not be reported as, compensation for Tier 2 members.

The ERS has completed its review of all pay type lists previously submitted by employers and will be returning the lists with its determination as to whether the pay types being used constitute "compensation" under HRS Section 88-21.5 and therefore comply with statute. If the ERS concludes that it requires additional information in order to issue a determination on a particular pay type or if an employer disagrees with ERS' determination, please send the requested information or written response to dbf.ers.eemployerteam@hawaii.gov no later than September 30, 2022. If an employer believes that a pay type other than those listed above should be reported as compensation, the employer must submit a written justification which: (1) identifies the specific subsection of HRS Section 88-21.5 that the employer believes is applicable; and (2) explains how the subsection is applicable, by the deadline above. If there are additional pay types for which the ERS has not rendered a determination, and the employer believes such additional pay types should be reported as "compensation" to ERS, then please provide by the deadline above an additional pay type list highlighting the additional pay types, along with a written justification as to why the employer believes said compensation is reportable.

State and County Directors
State and County Personnel and Payroll Staff
Employer Reporting for Compliance with Section 88-103.7, HRS (Act 87, SLH 2015)
September 1, 2022
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The ERS again wishes to thank you and your staff for partnering with us as we work to ensure strict statutory compliance. Should you have any questions, please contact Shanna Sakagawa or Bart Asato, Program Specialists, at (808) 586-1791 or (808) 586-1768, respectively or email us at dbf.ers.eemployerteam@hawaii.gov.

Enclosures