



STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

Date: 02/27/2015
Time: 09:00 AM
Location: 211
Committee: Senate Ways and Means

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: SB 1090, SD1 RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

Purpose of Bill: Requires State and counties to furnish payroll and personnel transaction information to the Employees' Retirement System in the required format. If a department or agency fails to provide the information in the required format, requires the State or county to pay to the system in a lump sum at the beginning of the fiscal year the amount equal to the employer contributions payable by the department or agency. Requires unpaid amounts to bear interest. Effective date January 7, 2059. (SD1)

Department's Position:

The Department of Education (DOE) would like to provide comment on SB1090, SD1.

DOE submits its payroll information and DAGS processes the payroll information to generate pay checks and pay statements for approximately 23,000 full time employees and upwards of 40,000 part time employees each pay period.

The payroll system is manual where hard copy sheets of Pay Change Schedules (PCS) are prepared by DOE payroll clerks and submitted to DAGS for data entry. Payroll details that support the PCS entries are manually written onto 5x8 payroll index cards every pay period by DOE payroll clerks. Converting the data for tens of thousands of manual payroll data cards to an electronic data capture system would be not be feasible due to the sheer volume of data to convert and would require substantial additional resources to comply. However, the statewide Enterprise Resource Planning (ERP) initiative to develop a single computer system platform for all State agencies will address the need to automate the payroll process and provide the data details that ERS requires.

TESTIMONY BY KANOE MARGOL
INTERIM EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII

TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 1090, S.D. 1

FEBRUARY 27, 2015, 9:00 A.M.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Tokuda, Vice Chair Kouchi and Members of the Committee:

S.B. 1090, S.D. 1 proposes to amend Section 88-103.7, Hawaii Revised Statutes, which requires departments of the State and counties to provide payroll and personnel information electronically to the Employees' Retirement System (ERS). This proposal ultimately benefits the ERS membership by requiring the employers to provide ERS the timely and accurate information needed in order for the ERS to promptly pay retired state and county employees their full retirement benefits. The bill also provides an economic incentive for employers to cooperate with the ERS.

When state and county employees retire, they are paid an estimated retirement benefit by the ERS until the system receives and audits the employees' final personnel and payroll records. The estimated benefit is usually less than an employee's actual benefit. If the ERS receives personnel and payroll records that are late, incomplete, or in a format that requires manual entry into their computer system, "finalization" and payment of retirants' benefits are delayed. Employers have little incentive to comply with the system's request for timely and accurate information in electronic format. Therefore, this proposal provides an economic incentive for them to do so.

This proposal specifies that, in addition to allocating payments to the periods payments are earned and specifying the purpose or nature of the payments, the employers are required to "indicate any changes or errors in payments that require correcting or updating."

In addition, if the State or counties do not provide the ERS with payroll and personnel information in the format required, they would be required to pay their employer contributions at the beginning of the following fiscal year (rather than on a monthly basis) in which the failure occurred. Any unpaid amounts would be subject to additional interest based on a rate equal to the investment yield assumption of the ERS. In order for employers to prepare their budgets, the ERS will submit a report to the Legislature and the Department of Budget and Finance indicating anticipated employer amounts payable for the upcoming fiscal year.

ERS's personnel and payroll file formats are currently configured to accept corrections, adjustments and updated information, though most employers do not utilize this capability,

resulting in delays in the processing of retirement benefits. S.B. 1090, S.D. 1 specifies that, if the ERS changes the required file format, each department or agency has 180 days from the notice of change to update their reporting format. This would provide sufficient time for both the employer and the ERS to update, test and validate accurate data reporting.

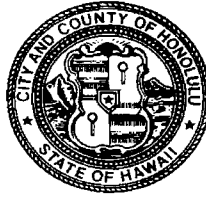
The Board of Trustees of the Employees' Retirement System supports this bill.

Thank you for the opportunity to provide testimony on this important measure.

DEPARTMENT OF HUMAN RESOURCES
CITY AND COUNTY OF HONOLULU

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KIRK CALDWELL
MAYOR



CAROLEE C. KUBO
DIRECTOR
NOEL T. ONO
ASSISTANT DIRECTOR

February 27, 2015

The Honorable Jill Tokuda, Chair
and Members of the Committee on Ways and Means
The Senate
State Capitol, Room 211
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Tokuda and Members of the Committee:

SUBJECT: Senate Bill No. 1090, SD1
Relating to the Employees' Retirement System

The City and County of Honolulu, Department of Human Resources ("DHR") has concerns about Senate Bill 1090 SD1, which would compel the City (and other employers) to furnish payroll and personnel transaction information to the Employees' Retirement System (ERS) in a particular electronic format, and penalize employers who did not comply.

Although we view working cooperatively with the ERS to ensure employees who retire from the City are properly paid as very important, **we cannot support this measure** because of the high degree of uncertainty surrounding the implementation of the bill.

The areas we view as uncertain are as follows:

- The electronic format (or formats) that will be acceptable to the ERS is unknown.
 - The City has worked diligently with the ERS to provide current employee data in the format specified by the ERS.
 - If the current format is deemed acceptable, then the City would be in compliance for this data.
 - If the current format is not acceptable and there is a change, the City would not be in compliance until the change is made (if, in fact, our system can accommodate the change.)
- The ERS currently accepts some types of information and documents in a non-electronic form. The bill requires the ERS to only accept information electronically.
 - If the acceptable electronic format is to have these documents scanned in so there is a PDF document, the City would likely be able to comply.

- If the requirement is to convert the document into, for example, an electronic spreadsheet, it would take considerable resources to manually type in the data and to check to ensure the data was correctly entered. This would result in a delay in providing the information and could result in resources being pulled from other tasks to comply with the request.
- The 180 day period within which employers must comply with any format changes may not be sufficient.
 - Although we do not know what the initial required format will be, if we assume the format being used for current employee information will be deemed acceptable, changes will still be a challenge as the interface which provides the information required by the ERS is one of the largest and most complex.
 - If the changes can be easily done and staff to work on those changes are not assigned to other priority tasks, then the City may be able to comply.
 - If the changes cannot easily be done—or are not possible with the system we have, then the City may not be able to comply. (We note that the ERS, State and counties may all have differing systems and different levels of compatibility.)
- The circumstances under which the ERS may waive the penalty may not cover all the circumstances that may warrant a waiver.
 - The ERS should be permitted broader authority to waive the penalty. For example, the ERS may find it is acceptable to continue to receive documents in paper format if the documents do not exist in electronic format—so the ERS may want to waive penalty in this case.
- The implementation of the penalty may not provide sufficient time for employers to assess the need for additional resources and to obtain those resources.
 - Given the uncertainty noted above regarding the formats that will be acceptable and the changes that will need to be made (if any), the City is unable to determine whether additional staffing or other resources will be needed to comply with this law and avoid the penalty.
 - Even if it is determined that additional resources are needed, there will be another delay as the City must go through the budget process to obtain the needed resources.

In light of the above, we respectfully ask that this measure be held. Thank you for the opportunity to comment on this measure.

Sincerely,



Carolee C. Kubo
Director