

STAND. COM. REP. NO. 3121

Honolulu, Hawaii

MAR 23 2026

RE: H.B. No. 1661
H.D. 1
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Third State Legislature
Regular Session of 2026
State of Hawaii

Sir:

Your Committee on Labor and Technology, to which was referred H.B. No. 1661, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO CAFETERIA PLANS,"

begs leave to report as follows:

The purpose and intent of this measure is to specify that the maximum contribution and carryover amounts for a public service flexible spending account plan shall be set in accordance with the annual limits prescribed by the Internal Revenue Service (IRS) for cafeteria plans.

Your Committee received testimony in support of this measure from the United Public Workers, AFSCME Local 646, AFL-CIO and Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO.

Your Committee received comments on this measure from the Department of Human Resources Development, Department of Human Resources of the City and County of Honolulu, and Tax Foundation of Hawaii.

Your Committee finds that public service flexible spending account plans are relied on by public employees to help them manage rising health care and dependent care costs in a tax-advantaged manner. Your Committee further finds that the




Internal Revenue Code allows employers to set the maximum amounts for employee contributions to these plans each year and carryover amount for the following year; provided they do not exceed the maximum limits set and updated each year by the IRS to keep up with rising costs. However, existing state law does not require public employers to keep up with the federal adjustments, resulting in significantly lower limits. This measure ensures that the State's public sector employees have the opportunity to elect more of their income to cover eligible expenses on a pre-tax basis.

Your Committee has amended this measure by specifying that the maximum salary reduction contribution and maximum carryover amount for flexible spending account plans shall be set annually in accordance with the maximum amounts allowed under section 125 of the Internal Revenue Code, as operative in the State under chapter 235, Hawaii Revised Statutes.

Your Committee notes that the IRS calendar differs from the State's fiscal calendar. Therefore, should your Committee on Ways and Means choose to deliberate on this measure, your Committee respectfully requests that it consider inserting an effective date of July 1, 2027, to ensure proper alignment between applicable federal requirements and administrative implementation timelines.

As affirmed by the record of votes of the members of your Committee on Labor and Technology that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1661, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1661, H.D. 1, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Labor and
Technology,



BRANDON J.C. ELEFANTE, Chair



