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**STATE OF HAWAII | KA MOKU'ĀINA O HAWAII**  
**DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT**  
**KA 'OIHANA HO'OMŌHALA LIMAHANA**  
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HONOLULU, HAWAII 96813-2437

WRITTEN ONLY

Statement of  
**BRENNA H. HASHIMOTO**  
Director, Department of Human Resources Development

Before the  
**SENATE COMMITTEE ON WAYS AND MEANS**  
Monday, April 6, 2026  
10:32AM  
State Capitol, Conference Room 211

In consideration of  
**HB1661 HD1 SD1, Relating to Cafeteria Plans**

Chair Dela Cruz, Vice Chair Moriwaki, and members of the committee:

The Department of Human Resources Development (HRD) offers the following comments for HB1661 HD1 SD1.

The purpose of HB1661 HD1 SD1 is to specify that the maximum contribution and carryover amounts for a public service flexible spending account plan shall be set annually in accordance with the maximum amounts allowed under section 125 of the Internal Revenue Code (Code), effective from 7/1/3000.

Under the Code, employers are permitted to set the maximum limits under their flexible spending accounts plan provided they do not exceed the maximum contribution and carryover limits allowed by the Internal Revenue Service (IRS). For the medical expense account, the IRS requires the plan to make the employee's entire election amount available for use from the first day of the plan year. If the employee submits a claim for the entire elected amount and then subsequently terminates employment before the end of the plan year, the employer cannot recoup the funds that were distributed in excess of the amount contributed from the terminated employee. The plan's forfeiture account, consisting of interest earned and forfeited participant balances, is used to cover the excess amount. For this reason, the State has been mindful and conservative in applying the maximum contribution limits and carryover amounts.

Currently the forfeiture account balance is \$1.6 million. For the 2025-2026 Plan Year there are a total of 5,650 participants of which 1,951 participants are electing the maximum contribution amount of \$2,750 in the medical flexible spending account, which

includes a carryover amount of \$550. The current maximum contribution amount for the dependent care flexible spending account is \$5,000.

The 2026 IRS maximum limit for the medical flexible spending account is \$3,400 and the carryover amount is \$680. For the dependent care flexible spending account, the maximum limit is \$7,500. The following outlines some of the statistics regarding forfeitures for the last 3 Plan Years.

	Plan Year		
	2022-2023	2023-2024	2024-2025
Forfeiture for Plan Year	\$168,811	\$122,627	\$196,570
Negative Forfeiture for Overspent Accounts	(\$98,618)	(\$144,050)	(\$65,494)
Number of Participants with Overspent Accounts	254	279	174

The forfeiture account is also used to subsidize the monthly fee to participate in the Plan. It is estimated that the plan will contribute approximately \$217,116 for the 2025-2026 plan year to offset the cost of administering the plan. In 2021, HRD made amendments to the Flexible Spending Accounts Administrative Rules to increase the maximum contribution amount and carryover limits for the 2022-2023 plan year to the maximum allowed by the IRS for the 2022 calendar year. Since the forfeiture account had a sizeable (sustainable) balance at that time which could be used to subsidize the administrative fees for future years and cover the amounts for the overspent accounts, a decision was made to increase the maximum limits. If the forfeiture account should be depleted, the State will be held liable to cover the excess amounts distributed or will have to terminate the program altogether. As such, HRD prefers that it continue to be allowed to set the maximum contribution limits and carryover amount.

The measure as currently drafted includes a reference to chapter 235, Hawaii Revised Statutes, relating to the Income Tax Law, which may be unnecessary since legislation is submitted annually to conform to the federal Internal Revenue Code. However, we defer to the Department of Taxation on this issue. In addition, the measure has an effective date of July 1, 3000, to encourage further discussion. If this measure is to pass and the effective date be changed, we urge the Senate to amend the effective date to no earlier than July 1, 2027. This is to ensure an orderly and practicable implementation of this bill, including time to amend or repeal the administrative rules governing the Plan's contribution amounts for the open enrollment period for the 2027-2028 plan year (July 1, 2027-June 30, 2028).

HRD appreciates the intent to set the maximum contribution limits and carryover amount for the flexible spending accounts to the annual limits prescribed by the IRS; however, we have concerns regarding the long-term sustainability of the program should the forfeiture account be depleted. Therefore, we prefer that HRD be permitted to continue to periodically adjust the maximum limits through amendments to Title 14, Subtitle 5, Chapter 52, of the Hawaii Administrative Rules, based on the overall health of the forfeiture account and usage trends.

Thank you for the opportunity to provide testimony. We are available to answer any questions or provide further information as needed.

**DEPARTMENT OF HUMAN RESOURCES  
KA 'OIHANA HO'OMOHALA LIMAHANA  
CITY AND COUNTY OF HONOLULU**

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KŌKUA PO'O

April 2, 2026

The Honorable Donovan M. Dela Cruz, Chair  
The Honorable Sharon Y. Moriwaki, Vice Chair  
and Members of the Committee on Ways and Means  
The Senate  
State Capitol, Room 211  
415 South Beretania Street  
Honolulu, Hawai'i 96813

Dear Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee:

SUBJECT: House Bill No. 1661 HD1 SD1  
Relating to Cafeteria Plans

The City and County of Honolulu ("City") respectfully submits **comments** regarding House Bill 1661 HD1 SD1, which would remove the City's authority to determine the maximum salary reduction contribution and maximum carryover amount for our flexible spending account (FSA) plan and instead require those limits to be set in accordance with the maximum amounts allowed by the Internal Revenue Service ("IRS"). Eliminating the employer's or plan administrator's ability to set these limits could jeopardize the fiscal stability and feasibility of this employee benefit.

Each year, the City carefully analyzes program data to determine the appropriate limits that will ensure the long-term viability of the City's FSA program. Mandating an increase to these limits without an analysis on plan impact will expose the City to increased financial risks for the health flexible spending account in several ways:

1. The City must make an employee's full annual election amount available on the first day of the benefit plan year. Increasing the City's current contribution limit to the maximum amount allowed by the IRS will require the City to maintain a much larger cash reserve to cover these potential payouts that occur at the start of the plan year.
2. If an employee utilizes their full election amount at the beginning of the plan year and subsequently separates from the City before their expenses can be recouped, the City would be unable to recoup this deficit from the separated employee. Higher contribution limits could increase this potential loss and if that loss is not covered by the reserves, it could result in an unbudgeted expense for the City.

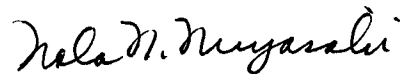
The Honorable Donovan M. Dela Cruz, Chair  
The Honorable Sharon Y. Moriwaki, Vice Chair  
and Members of the Committee on Ways and Means  
April 2, 2026  
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3. Increasing the carryover amount will reduce the amount of money forfeited by participants at the end of the plan year, which is typically used to cover our deficit with the remainder, if any, added to the cash reserves.

In order to avoid these potential risks and to continue the offering of a financially solid cafeteria plan benefit to its eligible employees, the City believes that the authority to set salary reduction and carryover limits should remain with the employer who assumes the financial risk of program viability.

Thank you for giving us the opportunity to submit testimony on this measure.

Sincerely,



Nola N. Miyasaki  
Director



## UNITED PUBLIC WORKERS

AFSCME Local 646, AFL-CIO

THE SENATE  
KA 'AHA KENEKOA

THE THIRTY-THIRD LEGISLATURE  
REGULAR SESSION OF 2026

COMMITTEE ON WAYS AND MEANS  
Senator Donovan M. Dela Cruz, Chair  
Senator Sharon Y. Moriwaki, Vice Chair

Monday, April 6, 2026, 10:32 AM  
Conference Room 211 & Videoconference

**Re: Testimony on HB1661, HD1, SD1 – RELATING TO CAFETERIA PLANS**

Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee:

The United Public Workers, AFSCME Local 646, AFL-CIO (“UPW”) is the exclusive bargaining representative for approximately 14,000 public employees, which includes blue collar, non-supervisory employees in Bargaining Unit 1 and institutional, health, and correctional employees in Bargaining Unit 10, in the State of Hawaii and various counties.

UPW **strongly supports** HB1661, HD1, SD1, which requires the maximum contribution and carryover amounts for a public service flexible spending account plan to be set annually in accordance with the maximum amounts allowed under section 125 of the Internal Revenue Service (“IRS”) Code.

Cafeteria plans, or flexible spending accounts (“FSA”), provide our members with the means to pay for eligible healthcare and dependent care expenses through pre-tax contributions to these types of accounts. Given the rising cost of living in Hawaii, many of our members are faced with putting off unexpected healthcare decisions due to the unbudgeted cost. Additionally, dependent care (e.g., childcare, preschool, after-school) is a significant financial concern for Hawaii’s working families, especially single parents, who need to work to support their households. FSAs are a great way to offset out-of-pocket health and dependent care expenses that also result in tax savings and greater spendable income.

The IRS increased the maximum amount employees may contribute to healthcare FSA to \$3,400.00 for 2026. Employees may also carry over a maximum of \$680.00 in unused funds into 2027.

In comparison, the Island Flex plan (“Island Flex”), which is the FSA program for State employees, has lower contribution maximums than allowed by the IRS. More specifically, the Island Flex healthcare maximum contribution, which is set in administrative rules, is \$2,750.00 with an allowable carry over of \$550.00. This bill would require that any cafeteria plan offered to public employees conform to the maximum contribution amounts that are set by the IRS annually. For those public employees that utilize this benefit, we believe the proposed adjustment will further help to offset the ever-rising cost of health and dependent care moving forward.

Mahalo for the opportunity to testify in support of this measure.

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# TAX FOUNDATION OF HAWAII

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SUBJECT: INCOME, Set Maximum Contribution and Carryover Amounts for Public Sector Cafeteria Plans Same as Federal

BILL NUMBER: HB 1661 HD 1

INTRODUCED BY: LBT

EXECUTIVE SUMMARY: Requires the maximum contribution and carryover amounts for a public service flexible spending account plan to be set annually in accordance with the maximum amounts allowed under section 125 of the Internal Revenue Service Code. Effective 7/1/3000. (SD1)

SYNOPSIS: Amends section 78-30, HRS, to provide that the maximum salary reduction contribution and maximum carryover amount for any flexible spending account plan shall be set annually in accordance with the maximum amounts allowed under section 125 of the Internal Revenue Code, as it operates in the State under chapter 235, Hawaii Revised Statutes.

EFFECTIVE DATE: July 1, 3000.

STAFF COMMENTS: We generally recommend conforming to federal standards in the Internal Revenue Code in light of section 235-3(a), HRS, which states, "It is the intent of this chapter, in addition to the essential purpose of raising revenue, to conform the income tax law of the State as closely as possible to the Internal Revenue Code, in order to simplify the filing of returns and minimize the taxpayers' burdens in complying with the income tax law."

Digested: 2/24/2026



**HAWAII GOVERNMENT EMPLOYEES ASSOCIATION**  
AFSCME Local 152, AFL-CIO

**RANDY PERREIRA**, Executive Director • Tel: 808.543.0011 • Fax: 808.528.0922

The Thirty-Third Legislature, State of Hawaii  
The Senate  
Committee on Ways and Means

Testimony by  
Hawaii Government Employees Association

April 6, 2026

H.B. 1661, H.D. 1, S.D. 1 — RELATING TO CAFETERIA PLANS

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly supports the purpose and intent of H.B. 1661, H.D. 1, S.D. 1, which specifies 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 for cafeteria plans.

The State allows for eligible employees to direct before-tax money from their paychecks into a Medical Flexible Spending Account (FSA) plan and the Dependent Care FSA plan. The medical FSA allows employees to pay for many health care expenses with tax free money which includes, but not limited to, co-payments, deductibles, glasses and contacts, and fees to doctors and hospitals. The current maximum amount an employee may contribute to the Medical FSA is \$2750 each plan year – the amount is set within the Department of Human Resources and Development (DHRD) administrative rules. The IRS has generally increased its amount based on inflation for each plan year, and for 2026 the maximum contribution amount is \$3,400. To note, the maximum contribution amount for plan year 2025 was \$3,300 and \$2750 for plan year 2020.

Currently there is a \$650 difference, and a six-year lag, in the maximum contribution between the amounts prescribed by the IRS and what DHRD has set within administrative rules for the medical FSA. By tying the current maximum contribution and carryover limits for an FSA plan to what the IRS prescribes each plan year would eliminate the states need to change its dollar amount via the administrative rules process and more importantly, it would give employees the immediate opportunity to elect more of their income to cover eligible expenses. At a time when our state is struggling to recruit and retain employees, this is just one of many ways we can remain competitive relative to the private and federal sector.

Thank you for the opportunity to provide testimony in strong support of H.B. 1661, H.D. 1, S.D. 1.

Respectfully submitted,

  
Randy Perreira  
Executive Director