

DAVID Y. IGE  
GOVERNOR



WESLEY K. MACHIDA  
DIRECTOR

LAUREL A. JOHNSTON  
DEPUTY DIRECTOR

**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

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

ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

October 17, 2017

FINANCE MEMORANDUM

MEMO NO. 17-17

TO: All Department Heads

FROM: Wesley K. Machida *Wesley Machida*  
Director of Finance

SUBJECT: Negotiation Agreement Approving Central Services Costs and Fringe Benefit Rates for FY 17

Attached is a copy of the negotiation agreement between the State of Hawaii and the U.S. Department of Health and Human Services on behalf of the federal government approving central services costs and fringe benefit rates for the fiscal year ending June 30, 2017.

Although FY 17 is already completed, the negotiation agreement is being transmitted to you for your information and records.

Please note that the central services costs listed in Exhibit A of the agreement are costs that may be allocated only to federal grants, contracts, and other agreements performed by your departments and attached agencies. They should not be construed to reflect the full costs of central services provided to you.

As previously reported in Finance Memorandum No. 17-14, dated October 3, 2017, the fringe benefit rate for FY 17 consisted of the following items:

|                                | <u>FY 17</u>  |
|--------------------------------|---------------|
| Pension Accumulation*          | 17.00%        |
| Pension Administration         | 0.00%         |
| Retiree Health Insurance       | 9.39%         |
| Employees' Health Fund         | 7.60%         |
| Workers' Compensation          | 1.06%         |
| Unemployment Compensation      | 0.09%         |
| Social Security                | 6.20%         |
| Medicare                       | 1.45%         |
| Other Post-Employment Benefits | <u>12.69%</u> |
| Composite Rate                 | 55.48%        |

\*It is noted that during their review of the SWCAP, Cost Allocation Services (CAS) discovered the following:

3. The actuary for the Hawaii Employees' Retirement System was not tasked to compute the actuarially determined contribution rates for FY 15. As a result, the ERS instructed the actuary to go back and calculate the rates. Therefore, it was agreed that the review of the pension costs will be completed once the actuarially determined contribution rates are provided.
4. The State's actuarially determined pension contributions exceeded the Governmental Accounting Standards Board (GASB) Statement No. 68 calculated pension expense. However, 2CFR200.431(g)(3) only allows pension plan costs determined in accordance with GAAP (i.e., GASB 68). The Office of Management and Budget (OMB) is aware of the issue and is currently considering revising the regulations. Therefore, CAS is reserving the right to make an adjustment to the billed pension costs to disallow the pension contributions in excess of the GASB 68 calculated pension expense if OMB does not revise the regulation or issue an exception.

Should you have any questions or require further information, please contact me, or your staff may contact Mr. Neal Miyahira, Administrator of this department's Budget, Program Planning and Management Division, at 586-1530.

Attachment