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## A BILL FOR AN ACT

RELATING TO UNFUNDED LIABILITIES.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that the health benefits  
2 funding mechanism established in this Act is the next best  
3 alternative to establishing a self-insured health benefits  
4 program for public employers and their employees. In 2011,  
5 Hawaii's unfunded health care liabilities peaked between  
6 \$15,000,000,000 and \$17,000,000,000. Meanwhile, healthcare  
7 premium costs have risen from \$505,000,000 in fiscal year 2004  
8 to about \$873,000,000 in fiscal year 2013. This is an average  
9 increase of \$40,800,000 per year.

10           According to Act 268, Session Laws of Hawaii 2013, the  
11 State and counties have to put down an annual contribution that  
12 could be as much as \$500,000,000 per year for the next thirty  
13 years starting in 2019 to pay down the unfunded liabilities for  
14 other post-employment benefits. Prior to 2019, Act 268 mandates  
15 the State and counties to contribute an annual contribution  
16 according to an increasing funding schedule based on a  
17 percentage of the liability. Combined, these costs together



1 will exceed \$1,000,000,000 in fiscal year 2016 and are expected  
2 to increase. The State and counties cannot afford to pay for  
3 both the increasing cost of healthcare premiums as well as the  
4 prefunding of the liability.

5 For other post-employment benefits, most state governments,  
6 including Hawaii, currently follow a pay-as-you-go approach,  
7 paying an amount each year about equal to the benefits  
8 distributed or claimed in that year. Other post-employment  
9 benefits standards set forth by the Governmental Accounting  
10 Standards Board do not mandate the prefunding of other post-  
11 employment benefits.

12 Paying for both the increasing costs of healthcare premiums  
13 as well as prefunding other post-employment benefits is not  
14 sustainable into the foreseeable future with the State's current  
15 and projected revenues. Some of the easiest ways to address the  
16 unfunded liabilities for public employee health benefits are to:

- 17 (1) Raise revenues by increasing taxes;
- 18 (2) Reduce benefits to state and county employees,  
19 retirees, and their dependents;
- 20 (3) Reduce the workforce of State and county employees; or
- 21 (4) A combination of any of the above.



1           Raising taxes for the healthcare needs of State and county  
2 employees places an unfair burden on the State's general  
3 population. Raising the general excise tax would be a  
4 regressive policy that would disproportionately impact those who  
5 can least afford it. Raising property taxes at the county level  
6 would unfairly target property owners and landlords, the costs  
7 of which would likely pass down to property renters.

8           Also, any reduction in benefits would be unfair to state  
9 and county employees, retirees, and their dependents who were  
10 promised healthcare benefits under the terms of their  
11 employment. Further, a reduction in state and county employees  
12 would be detrimental if it reduces necessary government  
13 services.

14           The State needs a more affordable and less painful  
15 solution. Therefore, the legislature finds that it is in the  
16 best interest of the State to:

17           (1) Establish a system to manage the healthcare needs of  
18 active and retired state and county employees,  
19 retirees, and their dependents, consisting of the  
20 following funds:



- 1 (A) Current Hawaii employer-union health benefits  
2 trust fund, which collects premium contributions  
3 from employers and employees;
- 4 (B) Current other post-employment benefits trust,  
5 which is used to prefund other post-employment  
6 health and other benefit plan costs for retirees  
7 and their beneficiaries; and
- 8 (C) A newly established rate stabilization reserve  
9 fund to be used for funding when there is  
10 insufficient money in the Hawaii employer-union  
11 health benefits trust fund to cover benefit  
12 costs. The reserve fund will be used to prevent  
13 frequent increases in premium contributions  
14 required from active employees and employers of  
15 the State; provided that these funds shall not be  
16 raided and moneys shall be used only for the  
17 purposes authorized by this Act;
- 18 (2) Stop employer contributions to the other post-  
19 employment benefits trust once the separate accounts  
20 for each public employer within the separate trust



1 fund has a combined subaccount balance of at least  
2 \$2,000,000,000;

3 (3) Transfer any investment income and interest from the  
4 other post-employment benefits trust to the rate  
5 stabilization reserve fund at the end of each fiscal  
6 year once the trust has a combined subaccount balance  
7 of at least \$2,000,000,000; and

8 (4) Transfer any remaining balance at the end of each  
9 fiscal year in the Hawaii employers-union health  
10 benefits trust fund to the rate stabilization reserve  
11 fund.

12 Also, the Hawaii employer-union health benefits trust fund  
13 projects a seven per cent investment return from the money in  
14 the other post-employment benefits trust. Once the trust fund  
15 has a balance of \$2,000,000,000, the investment income interest  
16 at seven per cent is \$140,000,000. This investment income and  
17 interest would be transferred to the rate stabilization reserve  
18 fund to prevent frequent increases in premium contributions from  
19 the employees and employers of the State and counties.

20 The governor is required to prepare a six-year program and  
21 financial plan for the State encompassing all state programs



1 every odd-numbered year pursuant to section 37-69, Hawaii  
2 Revised Statutes. The money saved from not having to prefund  
3 the unfunded health liabilities of the State and counties for  
4 the next thirty years beginning in 2019 will increase funding  
5 flexibility for the State and lead to a more balanced six-year  
6 program and financial plan. These savings could be used to fund  
7 the employee retirement system, public and charter schools, the  
8 Hawaii health systems corporation, or other funding needs of the  
9 State and counties, including rail transit.

10 Survival and taking control of our destiny is the goal of  
11 this Act. The financial viability and future of Hawaii is at  
12 stake. The understanding, encouragement, and support of  
13 everyone in the public and private sector, including employee  
14 unions and employers, is needed to solve the State's unfunded  
15 liabilities, which have the potential to bankrupt the State.

16 Accordingly, the purpose of this Act is to, among other  
17 things:

18 (1) Establish a rate stabilization reserve fund to provide  
19 reserve funding to stabilize the Hawaii employer-union  
20 health benefits trust fund at times when that trust  
21 fund has insufficient moneys to cover the costs of



1 providing health and other benefits plans for  
2 employee-beneficiaries and dependent beneficiaries  
3 when there is insufficient moneys in the trust fund;  
4 and

- 5 (2) Cap the required annual contributions to the other  
6 post-employment benefits trust once the separate  
7 accounts for each public employer within the separate  
8 trust fund has a combined balance of at least  
9 \$2,000,000,000.

10 SECTION 2. Chapter 87A, Hawaii Revised Statutes, is  
11 amended by adding a new section to be appropriately designated  
12 and to read as follows:

13 **"§87A- Rate stabilization reserve fund; establishment;**  
14 **purpose.** (a) There is established a rate stabilization reserve  
15 fund to be placed within the department of budget and finance  
16 for administrative purposes.

17 (b) The rate stabilization reserve fund shall provide  
18 reserve funding to stabilize the fund when there is insufficient  
19 money in the fund to cover the costs of providing health and  
20 other benefit plans for employee-beneficiaries and dependent-  
21 beneficiaries as required by this chapter. Unless otherwise



1 specified by law, the rate stabilization reserve fund shall not  
2 be subject to appropriation for any purpose and shall not be  
3 subject to claims by creditors of employers or the board.

4 (c) The rate stabilization reserve fund shall consist of:

5 (1) Moneys transferred from the fund;

6 (2) Interest from the separate trust fund established to  
7 prefund other post-employment health and other  
8 benefits plan costs for retirees and their  
9 beneficiaries pursuant to section 87A-42; and

10 (3) Appropriations from the legislature.

11 (d) The rate stabilization reserve fund shall meet the  
12 requirements of the Governmental Accounting Standards Board  
13 regarding employment benefits trusts."

14 SECTION 3. Section 87A-31, Hawaii Revised Statutes, is  
15 amended by amending subsection (b) to read as follows:

16 " (b) ~~[The fund, including any earnings on investments, and~~  
17 ~~rate credits or reimbursements from any carrier or self-insured~~  
18 ~~plan and any earning or interest derived therefrom, may be used~~  
19 ~~to stabilize health and other benefit plan rates; provided that~~  
20 ~~the approval of the governor and the legislature shall be~~  
21 ~~necessary to fund administrative and other expenses necessary to~~





1 ~~effectuate these purposes.]~~ Any remaining balance in the fund  
2 in excess of \$100 at the end of each fiscal year, shall be  
3 transferred to the rate stabilization reserve fund established  
4 in section 87A- ."

5 SECTION 4. Section 87A-42, Hawaii Revised Statutes, is  
6 amended as follows:

7 1. By amending subsections (a) and (b) to read:

8 "(a) Notwithstanding sections 87A-31 and 87A-31.5, the  
9 board, upon terms and conditions set by the board, shall  
10 establish and administer a separate trust fund for the purpose  
11 of receiving employer contributions that will prefund other  
12 post-employment health and other benefit plan costs for retirees  
13 and their beneficiaries. The separate trust fund shall meet the  
14 requirements of the [Government] Governmental Accounting  
15 Standards Board regarding other post-employment benefits trusts.  
16 The board shall establish and maintain a separate account for  
17 each public employer within the separate trust fund to accept  
18 and account for each public employer's contributions. Employer  
19 contributions to the separate trust fund shall be irrevocable,  
20 all assets of the fund shall be dedicated exclusively to  
21 providing health and other benefits to retirees and their



1 beneficiaries, and assets of the fund shall not be subject to  
2 appropriation for any other purpose and shall not be subject to  
3 claims by creditors of the employers or the board or plan  
4 administrator. The board's powers under section 87A-24 shall  
5 also apply to the fund established pursuant to this section.  
6 Notwithstanding any law to the contrary, any earnings on  
7 investments from the assets of the trust fund shall be  
8 transferred to the rate stabilization reserve fund established  
9 in section 87A- at the end of each fiscal year once the  
10 separate accounts for each public employer within the separate  
11 trust fund have a combined balance of at least \$2,000,000,000.

12 (b) Public employer contributions shall be paid into the  
13 fund in each fiscal year, and commencing with the 2018-2019  
14 fiscal year, the amount of the annual public employer  
15 contribution shall be equal to the amount of the annual required  
16 contribution, as determined by an actuary retained by the  
17 board[-]; provided that no public employer contribution shall be  
18 required if the separate accounts for each public employer  
19 within the separate trust fund have a combined balance of at  
20 least \$2,000,000,000."

21 2. By amending subsection (f) to read:



1           "(f) For the purposes of this section, "annual required  
 2 contribution" means a public employer's required contribution to  
 3 the trust fund established in this section [~~that is sufficient~~  
 4 ~~to cover:~~

5           ~~(1) The normal cost, which is the cost of other post-~~  
 6           ~~employment benefits attributable to the current year~~  
 7           ~~of service; and~~

8           ~~(2) An amortization payment, which is a catch up payment~~  
 9           ~~for past service costs to fund the unfunded actuarial~~  
 10           ~~accrued liability over the next thirty years]."~~

11           SECTION 5. Statutory material to be repealed is bracketed  
 12 and stricken. New statutory material is underscored.

13           SECTION 6. This Act shall take effect upon its approval.

14

INTRODUCED BY:

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# H.B. NO. 1356

**Report Title:**

Other Post-Employment Benefits; Unfunded Liability

**Description:**

Establishes the Rate Stabilization Reserve Fund to stabilize the Hawaii Employer-Union Health Benefits Trust Fund when there is insufficient money to cover the costs of providing benefits to employee-beneficiaries and dependent-beneficiaries. Caps employer contributions to the separate trust fund when the separate accounts for each public employer within the separate trust fund have a combined balance of at least \$2,000,000,000.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

