A BILL FOR AN ACT

RELATING TO UNFUNDED LIABILITIES.

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

SECTION 1. The legislature finds that the human-induced global climate crisis requires a thoughtful but bold response on many fronts to make Hawaii communities resilient to the impacts of storms, floods, fire, and sea-level rise that threaten the very survivability of these fragile islands. Lest Hawaii lose its leadership position in meeting the future, and in the arenas of labor, justice, and equity, the legislature embraces aloha 'aina to decarbonize Hawaii's systems of food, energy, and transportation, and to sequester carbon through systems of agriculture, waste management, and ecosystem restoration. The good jobs thereby created also expand access to health, housing, and education, ensuring justice and equity for Hawaii's citizens by saving the State at least $500,000,000 every year that can be used to address the global climate crisis and other statewide concerns like affordable housing and homelessness; teacher and doctor shortages; capital improvement projects, such as funding for a new jail and the development of Aloha Stadium; state and
county road repairs; and collective bargaining funding. The following Green New Deal measure represents a step forward in mitigating and adapting to inevitable change.

The legislature further finds that according to the National Conference of State Legislatures, in 2010, forty-six states self-insured or self-funded at least one of their employee health care plans, and at least twenty states self-funded all of their employee health care offerings. As of July 1, 2016 or July 1, 2017, depending on the states' most recent plan years, nine more states were added, for a total of twenty-nine states who are self-insured or self-funded.

The legislature also finds that self-insured or self-funded plans have a number of potential advantages over fully insured plans. The legislature further finds that many states administering self-insured or self-funded employee health care plans have been able to lower costs while still maintaining a high level of health benefits.

Hawaii's employer-union health benefits trust fund is currently fully insured rather than self-insured or self-funded. However, health care premiums have risen rapidly over the last decade. Therefore, the legislature believes that it is prudent
and essential that the State consider converting the employer-
union health benefits trust fund to a self-insured model or
self-funded model that will result in cost savings.

The legislature further finds that the unfunded portion of
the actuarial accrued liability of the Hawaii employer-union
health benefits trust fund is amongst the worst of all fifty
states.

To address this unfunded liability, Act 268, Session Laws
of Hawaii 2013, requires the State and counties to prefund other
post-employment health and other benefit plan costs for retirees
and their beneficiaries by making annual contributions to the
other post-employment benefits trust fund. However, as of July
2, 2015, the unfunded portion of the actuarial accrued liability
of the Hawaii employer-union health benefits trust fund was
$11,772,008,000. This far exceeded state revenues. Further,
state, county, and other public employers' annual contributions
to the other post-employment benefits trust fund totalled
$427,299,249 while all assets of the trust fund totalled
$2,370,481,565, for fiscal year 2018.

In addition, the State, counties, and other public
employers are also required to make payments to cover a portion
of pay-as-you-go Hawaii employer-union health benefits trust fund costs. Clearly, given current and projected revenues, the State and the counties cannot afford to prefund health and pension unfunded liabilities, which are projected to total more than $800,000,000 per year in later years. A more affordable and less painful solution is necessary.

Furthermore, the Hawaii employer-union health benefits trust fund projects a seven per cent investment return on funds in the other post-employment benefits trust fund, which amounts to an estimated $140,000,000 that will be deposited into the rate stabilization reserve fund each year. By not requiring other post-employment benefits prefunding through 2049, this Act will free up moneys for important state, county, and other public employee services, projects, and needs.

Accordingly, this Act:

(1) Caps public employer prefunding through the Hawaii employer-union health benefits trust fund and other post-employment benefits trust fund once the separate accounts for each public employer have a combined balance of at least $2,000,000,000;
(2) Thereafter, transfers any investment income and interest from the Hawaii employer-union health benefits trust fund and other post-employment benefits trust fund to a newly established rate stabilization reserve fund, which will provide reserve funding to stabilize the Hawaii employer-union health benefits trust fund at times when that trust fund has insufficient moneys to cover the costs of providing health and other benefits plans for active employees and retirees and their beneficiaries; and

(3) Continues to provide for the use of a portion of the transient accommodations tax revenues to supplement deficient county public employer contribution amounts if necessary.

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

"§87A- Rate stabilization reserve fund; establishment; purpose. (a) There is established a rate stabilization reserve fund to be placed within the employer-union health benefits trust fund for administrative purposes."
(b) The rate stabilization reserve fund may cover the increasing costs of providing health and other benefit plans for active employees and retirees and their beneficiaries as required by this chapter. A separate account for each public employer shall be established and maintained to accept and account for each public employer's contributions. Unless otherwise specified by law, the rate stabilization reserve fund shall not be subject to appropriation for any purpose and shall not be subject to claims by creditors of employers or the board.

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

(1) Moneys transferred from the Hawaii employer-union health benefits trust fund established by section 87A-30 and the other post-employment benefits trust fund established by section 87A-42;

(2) Interest from the separate trust fund established to prefund other post-employment health and other benefits plan costs for members and their beneficiaries pursuant to section 87A-42 and interest from the rate stabilization reserve fund; and

(3) Appropriations from the legislature.
(d) The rate stabilization reserve fund shall meet the requirements of the Governmental Accounting Standards Board regarding employment benefits trusts."

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

"(b) [The fund, including any earnings on investments, and rate credits or reimbursements from any carrier or self-insured plan and any earning or interest derived therefrom, may be used to stabilize health and other benefit plan rates; provided that the approval of the governor and the legislature shall be necessary to fund administrative and other expenses necessary to effectuate these purposes.] All unencumbered and unexpended moneys in excess of $2,000,000,000 remaining in the fund at the end of each fiscal year shall be transferred to the rate stabilization reserve fund established in section 87A-____."
of receiving employer contributions that will prefund other
post-employment health and other benefit plan costs for retirees
and their beneficiaries. The separate trust fund shall meet the
requirements of the Governmental Accounting Standards Board regarding other post-employment benefits trusts.
The board shall establish and maintain a separate account for
each public employer within the separate trust fund to accept
and account for each public employer's contributions. Employer
contributions to the separate trust fund shall be irrevocable,
all assets of the fund shall be dedicated exclusively to
providing health and other benefits to retirees and their
beneficiaries, and assets of the fund shall not be subject to
appropriation for any other purpose and shall not be subject to
claims by creditors of the employers or the board or plan
administrator. The board's powers under section 87A-24 shall
also apply to the fund established pursuant to this section.
Notwithstanding any law to the contrary, once the separate
accounts for each public employer within the separate trust fund
have a combined balance of at least $2,000,000,000, any earnings
from the $2,000,000,000 remaining in the separate trust fund at
the end of each fiscal year shall be transferred to the separate
public employer accounts within the rate stabilization reserve fund established in section 87A- . Unless otherwise specified by law, the $2,000,000,000 and the separate trust fund shall not be subject to appropriation for any purpose and shall not be subject to claims by creditors of employers or the board."

2. By amending subsection (d) to read:

"(d) In any fiscal year [subsequent to the 2017-2018 fiscal year] in which a county public employer's contributions into the fund are less than the amount of the annual required contribution, the amount that represents the excess of the annual required contribution over the county public employer's contributions shall be deposited into the fund from a portion of all transient accommodations tax revenues collected by the department of taxation under section 237D-6.5(b)(4). The director of finance shall deduct the amount necessary to meet the county public employer's annual required contribution from the revenues derived under section 237D-6.5(b)(4) and transfer the amount to the board for deposit into the appropriate account of the separate trust fund."

3. By amending subsection (f) to read:
"(f) For the purposes of this section, "annual required contribution" means a public employer's required contribution to the trust fund established in this section [that is sufficient to cover:]

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

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

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

SECTION 6. This Act shall take effect on July 1, 2020.
Report Title:
Unfunded Liabilities; EUTF; OPEB; Green New Deal-Hawaii

Description:
Converts the State's employee health care plan from fully-insured to self-insured or self-funded. Establishes the rate stabilization reserve fund. Establishes a reserve of $2,000,000,000 within EUTF. Transfers excess funds, earnings, and any pay-as-you-go employee premiums not spent from the EUTF reserve and OPEB to the rate stabilization reserve fund. Continues to provide for the use of a portion of TAT revenues to supplement deficient county public employer contribution amounts.

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